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Statement to the European Parliament prior to the meeting of the Heads of State and Government of the Euro Area

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Honourable Members,

I was asked to make a statement to this house ahead of Friday's meeting of the Heads of State and Government of the Euro area.

But Let me first have a word of condolences for the families of the victims of the violence in Athens today. Disagree and protest is a right of citizens in our democratic societies, but nothing can justify the recourse to violence.

Let me first address the financial support package for Greece endorsed last Sunday. Then I will give you some my views on what needs to be done to prevent a repetition of a crisis of this type.

As regards Greece, a multi-annual programme of fiscal consolidation and structural reform has been agreed by the Greek authorities. This was jointly prepared with the European Commission, the European Central Bank and the International Monetary Fund.

The Greek government has put forward a solid and credible package that will steer its economy on a sustainable path and restore confidence. It is important that we acknowledge the courage that Prime Minister Papandreou and his Government have shown.

Greece will undertake painful efforts. But we all know that there is no alternative to these such efforts.

In return, following the recommendation of the Commission and of the European Central Bank, the coordinated European mechanism for assistance to Greece has been activated. This is an unprecedented act of solidarity, unmatched anywhere in the world.

This assistance will be decisive in helping Greece to get its economy back on track, and will preserve the financial stability of the euro area as a whole.

Allow me to stress that the Commission has made sure that the mechanism, whilst being based on bilateral loans, is an European one. The Commission was instrumental in setting it up, and will play an important role in its management and implementation.

The Commission is and will remain central in assessing Greece's compliance with the package's conditionality. The Commission will also manage the bilateral loans from the Member States.

By the end of the week we will already have a critical mass of Member States that have already completed the process to provide those bilateral loans to Greece.

It is my firm conviction that the unprecedented financial support given to Greece - 110 billion Euros! - and the adjustment programme are an adequate response to the Greek crisis. We have no reason to doubt that it will be firmly implemented both by Greece and by the Euro area Member States.

This view is shared by others that matter. I notice for instance the supportive statement of the past, current and future chairs of the G20 Finance Ministers just now issued.

Regrettably, not all market players seem already convinced. We have to say loud and clear that the doubters are wrong. I will come back to this in a moment.

Honourable members,

At the meeting of the Euro area Heads of State and Government on Friday, we will look beyond this deal into what we need to do to draw the right lessons from this situation.

The debate will of course be a starting point, because decisions need to be debated further and ultimately taken with all the 27 Member States - Euro area Member States and all the other Member States And let me say very clearly: discussing and taking decisions at 27 is a source of strength.

Whilst we have to speed up our processes, the fact is that the joint action of the 27 – unparalleled anywhere in the world – provides the best possible fundament for our joint future in an ever more interlinked world.

I see two main strands for reflection and action: first, a reassessment of the rules for economic governance, including the Stability and Growth Pact, and second, financial markets reform.

The Commission has been working intensively on economic governance and is ready to present its proposals on how to improve it next Wednesday.

There are three main building blocks to be considered:

- First, <u>responsibility</u>: we need to reinforce the Stability and Growth Pact – and above all Member States' compliance. The case for reinforcement of both the preventive and the corrective arm of the pact is obvious. I am pleased that most of those who have previously questioned - or even suggested the weakening of the pact now accept the need for stronger rules and – most importantly – for their strict implementation.
- Second, <u>interdependence</u>: we are all in this together. I think the crisis has clearly shown that we need to address the imbalances between our Member States, in particular within the Euro area. This includes divergences in their competitiveness, as this is one crucial element that causes other types of imbalances. This can of course not mean that some become less competitive so that others look relatively more competitive. We are competing, all of us on world markets. What we need is to enhance our overall competitiveness in a balanced, mutually reinforcing way. I also believe we need to look at the other causes of imbalances. To make progress, we will propose increased surveillance and increased economic policy coordination. I am happy we see more openness from Member States when discussing it.
- Third, <u>coherence</u>: we have to ask ourselves whether our system of fiscal rules is complete. I see merit in creating a permanent mechanism for dealing with disruptive situations. After all, it is better to be safe than sorry.

I hope that we can seize the moment - and I count on you to help us deliver these reforms. I believe from a political point of view that in terms of European integration we are in one of those moments that if we don't make more Europe we will become behind. It is a very special moment, the moment we are living today, where our solidarity, our responsibility is being tested every day. I hope that leaders of our members States will be able to rise to the occasion not just to help the others, but to show their responsibility to the common European project.

These reforms will be introduced against the background of unprecedented efforts already under way. It is undisputed that deficit and debt levels in some Member States need to be corrected with determination and faster than targeted before the crisis.

But it must also be said that one cannot ignore that the budgetary deterioration in 2009 was largely due to the working of the automatic stabilizers in the face of an unprecedented decline in economic activity caused by a financial crisis not originated in Europe. In other words, the overall situation in the Euro area was largely the result of of anti-recession policies advocated all over the world.

It was always clear that the situation would subsequently be corrected. And most Euro area members have already taken bold reforms, for example of their pensions systems.

The responsibility shown by the governments needs to be matched by financial market players. This is why it is no less urgent to continue delivering a sustainable and responsible financial sector, at the service of the economy and its citizens.

One must bear in mind that financial market players are key actors in driving market sentiment. Psychology also matters in financial markets The financial crisis was born out of short-termism, pro-cyclicality and a lack of responsibility.

That is what we urgently must correct.

We need strong and stable European financial services markets to deliver the investments needed for future growth in line with the Europe 2020 vision. We need responsible behaviour from all our market players.

We have already been doing a lot as regards financial markets reform. I count on this House to make this clear to all!

European institutions are acting, and must be seen as acting together. Parliament , Council and Commission

We have prioritised work on responsible risk management, safer derivatives markets, better financial supervision, and ensuring that banks hold adequate capital to cover their real risks. This work must be speeded up.

In the coming weeks we will need to complete the reforms already underway. As I said to this House only two weeks ago, I hope to see a breakthrough soon on our proposal for hedge funds and private equity.

I would also like early agreement on effective new European supervisory arrangements. The European Systemic Risk Board and the three Supervisory Authorities should start working at the beginning of 2011.

But they must not be mere paper tigers: we have a shared responsibility to ensure they have the tools they need to do their jobs. This includes binding decision-making powers to deal with genuine emergencies, to enforce European rules, and I insist European rues, not only national rules, and settle any disputes within colleges of national supervisors.

It is high time to deliver these decisions and make sure they are ambitious.

More proposals are on their way this year to improve depositor and investor protection, to strengthen measures against market abuse, to further improve the quality and quantity of bank capital and discourage excessive leverage.

Over the past three months, and paradoxically still this week, the situation on the sovereign debt markets has brought new concerns to light.

The Commission is already working on a fundamental overhaul of derivatives markets to increase transparency and safety in these markets.

In a first stage, we will present legislation to standardise eligible derivatives contracts, putting them through central counterparty clearing that is properly regulated and supervised.

We are also now considering whether further specific measures are needed for sovereign derivatives markets.

The crisis has also once again brought the role of credit rating agencies to the fore. These agencies play a pivotal role in the functioning of financial markets.

But ratings appear to be too cyclical, too reliant on the general market mood rather than on fundamentals - regardless of whether market mood is too optimistic or too pessimistic.

Because credit rating agencies have such a key role and influence over the markets, they also have a special responsibility to ensure their assessments are both sound and comprehensive.

That is why in 2008 the Commission quickly put forward new legislation for these agencies, which will come into force in the next few months.

These rules will ensure that credit rating agencies act more transparently, publish their methodologies, and avoid conflicts of interest.

But we need to go further. To strengthen the supervision of these actors of Europe-wide dimension, the Commission believes they should be put under the direct supervision of the future European Securities Markets Authority (ESMA).

And that is exactly what we will propose.

We have also launched a reflection on whether further measures may be needed to ensure the appropriate rating of sovereign debt in particular.

We must get our house in order while pushing others to do the same.

The Commission will do whatever necessary to ensure that financial markets are not a playground for speculation. Free markets constitute the basis for the functioning of successful economies. But free markets need rules and compliance, and rules and compliance need to be tightened if irresponsible behaviour puts at risk what cannot and should not be at risk.

Market behaviour must rest on sound and objective analysis. And financial services must realize that they are exactly that: a service, not an end in itself - they must not become detached from their economic and societal function.

In fact, financial market players are still in business because regulatory authorities and democratic institutions – ultimately the taxpayers – stabilized the markets in the financial crisis.

We acted swiftly then, and precisely for that reason, we will also act swiftly in the future.

So the message from this Friday's meeting of Eurogroup Heads of State and Government should be clear. And it will be clear.

We are doing what is needed. On all fronts.

Thank you for your attention.