EUROPEAN COMMISSION

Olli REHN
Vice-President of the European Commission and member of the Commission responsible for Economic and Monetary Affairs and the Euro

Consolidating the return to growth

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

The 2013 Euro Summit, Brussels
3 December, 2013

Spokespersons' Service
Service des Porte-parole

SPEECH/13/1010

I would like to thank the Lisbon Council and Berenberg Bank for giving me the opportunity to share my views on progress achieved over the past 12 months in the euro area and the challenges ahead of us.

With only three years of existence, the Euro Plus Monitor that Dr Schmieding just presented to you, ladies and gentlemen, has become a reference tool for academics, journalists and policy makers in the EU, as it provides us all with valuable analysis over the progress achieved, as well as on the risks and the opportunities to seize by all euro area member States and three other major European economies.

I found it particularly interesting to look at the two main aggregate indicators developed in your study to measure progress in the crisis response and the evolution to more sustainable economic models: the "adjustment progress indicator" – which looks at fiscal position, external accounts, labour costs and supply-side reforms – and the so-called "fundamental health indicator" – based on growth potential, competitiveness, fiscal sustainability and resilience to financial shocks.

These are indeed appropriate, because we should aim at doing more, but also at doing better — at least if we really want not only to fix our economies but to exercise leadership in the globalized economy. A mere adjustment without improved sustainability, without building sound foundations for future growth and job creation, would result in a missed opportunity that would have fatal consequences for the generations of Europeans to come.

Our efforts to tackle the crisis are bringing results, and we must build on that. The existential threat to the Euro is over. Since the summer, we have been seeing an economic turnaround in Europe. We expect the recovery to gain momentum next year. The latest figures on unemployment tell that the negative trend is turning.

The doomsday prophets have been proven wrong, but we cannot claim victory yet. The recovery is still fragile. In much of Europe, unemployment remains unacceptably high. That's why we must stay the course of economic reform in Europe. And that's why we must focus on restarting the engine of growth.

According to our recent autumn forecast, economic activity is projected to expand by 1.1% in the euro area in 2014, and we expect a further acceleration in 2015 to 1.7%.

Confidence is also rising and domestic demand is gaining strength, including investment. Countries that recorded current account deficits over the last decade now see their net exports contributing more strongly to growth. Linked to these factors and also to decisive policy action in our countries and in the EU, stress in sovereign bond markets has receded.

So yes, the recovery is gaining ground. But the on-going necessary adjustment process will continue to weigh on growth for some time.

Reform is advancing in Europe, which is widely acknowledged by our international partners and markets. Progress is particularly visible – and your study highlights it with clarity — in countries under programme or vulnerable ones. As you rightly note, these countries no longer live beyond their means.

But the hardship experienced by many citizens in those countries and the very high level of unemployment remind us that there is no room for complacency and self-congratulatory speeches. Instead emphasis must be kept on investment, access to credit and growth-enhancing policies, while staying the course of reform.

The economic adjustment programmes are specifically aimed at ensuring a return to macro-economic and financial stability and fiscal sustainability. These are the pre-conditions for sustainable growth and job creation, which are the ultimate objectives of the programmes. Spain and Ireland will exit their financial assistance programmes on time and according to plan. Of course, challenges remain for these two countries, but the adjustment effort is paying off. And recent data from Eurostat show that the economies of Spain and Portugal have moved into positive growth territory.

Ladies and Gentlemen,

I read in your Euro Plus Monitor that "success is within reach" and that "the Eurozone's systemic crisis could be over by mid-2014" and time will then come to reap the rewards of reform. I agree, but with some caveats.

The economic turnaround and the gradual return to growth will relieve the pressure on our public finances. According to our autumn forecast, the nominal deficit-to-GDP ratio in the euro area will be reduced below the 3% threshold next year and remain below it in 2015. At the same time, the debt-to-GDP ratio is now expected to peak and stabilise in 2014, at about 90% in the EU and 96% in the euro area.

But the situation remains uneven across euro area member States. I acknowledge the reform fatigue and the political costs for those in Government in countries undergoing severe adjustment. But there should be no complacency as the crisis response is still work in progress.

Another factor that I want to underline, which is often absent in press reports and in the political debate, is the slowing down of the pace of fiscal consolidation this year: ½ p.p. of GDP in structural terms. And the envisaged average change next year in the structural balance of the euro area should be ca. ¼ p.p. of GDP. This "extra oxygen" is relevant for the nascent recovery. We can now afford to have a slower pace of fiscal adjustment because we have gained credibility and confidence in the most vulnerable economies is recovering thanks to decisive reform.

The more rigorous and comprehensive economic governance structure that we have put in place and its full ownership by Eurozone member States and institutions is to my mind a crucial factor for the improvement we see today.

Let me briefly address its latest example. Two weeks ago, and for the first time, the annual cycle of surveillance for euro area member States was completed with the assessment of their Draft Budgetary Plans by the Commission. This was then followed by an extraordinary Eurogroup meeting where ministers discussed about each other's budgets with rigor and in a true spirit of partnership. This was legally impossible but also politically unthinkable only three years ago. The architects and founding fathers and mothers of the euro might have only dreamt of it before Maastricht, but political interests frustrated that ambition at that time.

Last month we launched the fourth European Semester, and this has now become the shared time-line and the shared methodology of our enhanced coordination of economic policies.

Repairing the financial system and building a fully-fledged Banking Union is no doubt a cornerstone of our crisis response.

Ladies and Gentlemen,

Let me now turn to an issue of concern, especially for SMEs in Southern Europe, and that is investment for growth and access to finance. Although there are some signs that the contraction in credit growth is slowing down, divergence in lending conditions and volumes across the euro area remains high. In other words, financial fragmentation within the euro area prevails.

According to the information available, the EIB still expects to meet its 2013 lending targets under the Compact for Growth and Jobs. And the agreement on the budgetary framework for 2014-2020 and the SME initiative with the EIB are important to enhance the lending capacity and support access to credit by SMEs.

Ladies and Gentlemen,

To conclude, the signs of an economic turnaround are increasing week by week. But as growth will pick up only gradually and its translation into much needed jobs will take time, we cannot and must not fall into any kind of complacency. Further decisive action to boost sustainable growth and job creation will continue to be necessary in Europe. This calls for staying the course of reform.