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10 Jahre Euro - Welche Zukunft hat die Gemeinschaftswährung?

(es gilt das gesprochene Wort)

Dear ladies,

Dear gentlemen,

It is a great pleasure for me to be here today and to address such a distinguished audience. First of all, I would like to thank Mr. Thomas Stehling for the invitation and the organisation of today's event.

I want to talk to you about a success story, the Euro.

Ten years after its establishment the single currency has demonstrated its potential to bring enormous benefits to European nations, which they can use to achieve a high degree of stability and prosperity.

Sceptics and critics during the introduction in 1999, who had argued that the Euro would not be a viable currency, have been proven wrong. After its tenth year of usage the euro is successfully performing all functions of a currency - to the benefit of the European citizens using it.

What are the major benefits?

The first and the most obvious is price stability. Over the last years, inflation has stayed broadly in line with the price stability objective set by the European Central Bank combined with a high degree of credibility in Europe's monetary policy. The existence of the Euro contributed to macroeconomic

stability within the Euro area, and thus to stability in the global context. In the meantime Europe is the world's largest trading block.

The European project is built around a single market of 27 countries with internal borders which are far more open than any other comparable trading area.

On international terms the Euro has become the number two in currency markets and is still gaining influence in the neighbourhood countries of the euro zone. However, the chance to replace or even to rival the role of the Dollar as the global currency seems to be limited. Despite the progress of developing financial markets in Europe there is still a deep gap compared to the depth of US markets. Nevertheless, the Euro has given a boost to the financial integration in Europe in the past.

In the current global and economic crisis it is quite obvious that the Euro has helped member countries of the euro zone to withstand the currency fluctuations without giving in the pressure of individual devaluations and capital flight, as it has been in former times.

When the Euro was conceived two decades ago, few people expected it to have to weather a storm as great as the recent global economic and financial crisis. The Lisbon process underestimated the true differences in the Member countries economies and failed to adequately address them.

Between 2008 and 2010, several things went wrong in Europe, the biggest of which was Greece's financial crisis.

In 1992, when the Maastricht Treaty established a monetary union without a political union, the Euro was an incomplete currency. Member countries share a common currency supported by a European

central bank, however, on sovereign credit they are on their own. This was a loophole in the original design and became the focal point at the beginning of this year, when Europe faced a crucial test for its single currency.

According to the Maastricht Treaty budgetary policy for countries belonging to the common currency zone is restricted to the borrowing deadline of 3% of GDP and a 60%-cap of total debt to economic output. Violations of the criteria should be punished after an approval of a two-third majority in the Council. So far the theory.

The start of the Euro in 1999 brought about a radical narrowing of interest rate differentials. Practically Member countries could borrow at the same interest rates as the market leader Germany through the discount window of the European Central Bank. The cheap money generated real estate bubbles in Spain, Greece and Ireland. In consequence, those countries grew faster and developed trade deficits within the euro zone, while Germany cut back labour costs and developed a chronic trade surplus. This was the opposite of what the Maastricht Treaty intended to prescribe with the idea of convergence.

For years, the Greek fiscal policy had been unsound. Preventive measures and strict transparency obligations to foster the compliance with the Stability and Growth Pact have been missing.

Unlike countries with national currencies, Greece could not find a solution through monetary policy. It neither could print money to inflate its debt away nor depreciate its currency to recover the international competitiveness. To tackle the problem, EU and IMF were forced to negotiate a financing support plan of 110 billion Euro accompanied by substantial expenditure cuts.

As the Greek crisis festered and credit risk spreads had been climbing to all time highs and finally spilled over to other deficit countries, EU authorities felt obliged to establish an umbrella solution

called European financial stabilization fund. They put together a 750 billion Euro with 500 billion Euro from Member states and 250 billion from the IMF. The mutual support agreement was necessary at that time and will last for at least three years.

The time pressure was obligatory to downsize the moral hazard problem. Besides, a time-limited approach enhances the importance to evaluate the efforts of the Member States on a continuous basis and under strict scrutiny. The question, if the Greek or the European stabilization programme needs to be prolonged, is legitimate, but has to be treated very carefully...

As political decision-makers we act under the watchful eyes of their citizens. The mutual agreement involving a great deal of taxpayers' money did not find many supporters in the German population. Indeed, the controversial discussions, which climaxed in a scenario about the collapse of the euro zone, lead to a more in-depth approach for broad reforms within the European financial architecture and governance system.

As the economies of the euro zone and the European Union as a whole are highly interconnected, the establishment of EU-wide supervisory and regulatory authorities was more than overdue. The authorities should have the discretion to press national governments to remedy problems and should be independent enough to act in a preemptive way. After tough negotiations with the Council and the European Commission, the European Parliament approved the creation of four financial supervisory authorities in its plenary session on 22nd of September: the European Banking Authority, the European Insurance and Occupational Pension Authority, the European Securities and Market Authority and a regulatory Authority, which deals with macroeconomic developments, the European Systemic Risk Board.

A first significant step has been completed. The reform of the economic governance system, however, seems to be an even greater challenge.

The Euro was always supposed to drive structural reforms. However, the recent experience shows that markets must not lose faith in the fact that the euro zone economies will converge thanks to the discipline of sharing a single currency.

Alarmed by the growing signs of East-West division the Polish prime minister Donald Tusk declared that the European ship was “rocking” and “it seems they're going to start throwing the weaker passengers overboard.” Current public talk worries about a “Bermuda Triangle” of debt, demographic decline and lower growth in Europe.

The major debate to avoid speculations about a disintegration was headed by Germany and France - with both countries promoting different approaches. The “southern” camp of Member States routed by France favoured a European economic government solution in sharp contrast to German views which support stricter rules on borrowing and spending backed by sanctions for governments which fail.

Anyhow, the fact that the Maastricht criteria were so flagrantly violated underlined that the Euro does have design faults which need to be corrected. The sovereign debt crisis has exposed the ineffectiveness of a one-size-fits-all monetary policy for a continent with significantly disparate economies.

However, doing the right thing under present conditions remains a tough target, especially for weaker economies within the European Union. Reductions in employment, tax revenue and exports reinforce each other - with the outcome that austerity targets will not be met and further reductions will be required. I guess, on this point, I am taking the words right out of your mouth: The austerity package, Portugal announced end of September, is - understandably - a highly sensitive subject in

daily politics, but has been welcomed by the European decision-makers. The efforts will enhance Portugal's credibility on financial markets and could help the country to attract more foreign direct investments.

As a step forward the EU-Commission introduced end of September a reform package of legislative measures for a more effective economic policy framework.

It is called package, as the proposal involves six pieces of legislation. Four proposals deal with fiscal issues, including a wide-range reform of the Stability and Growth Pact, while two new regulations focus on emerging macroeconomic imbalances within the EU and the euro area.

The European Semester, which will be introduced beginning of next year, should be the medium, where future economic policy coordination should take place. To do this effectively, the current proposals by the Commission focus on three main objectives

- Reinforce the compliance with the Stability and Growth Pact and deepen fiscal policy coordination
- Establish a scoreboard of economic and financial indicators and carry out in depth country analyses to tackle imbalances in time
- Strengthen the enforcement mechanisms including a wider range of sanctions and incentives

The preventive arm of Stability and Growth Pact, mainly Article 121 of the Treaty, should be strengthened by the requirement to limit the annual expenditure growth to a medium-term rate of GDP. Any failures will be answered by warnings and followed by recommendations for corrective action.

The corrective arm of the Stability and Growth Pact foresees a close monitoring of debt developments.

As soon as a Member state's debt exceeds 60%, an obligation for debt reduction comes into place. Furthermore, an interest bearing deposit amounting to 0,2% of the GDP is introduced, once a country is placed under the excessive deficit procedure. In case of non-compliance with corrective measures the deposit can be converted into a fine. According to the Commission the enforcement is strengthened by introducing a "reverse voting" mechanism in the Council.

In order to tackle macroeconomic imbalances the Commission proposes to introduce an alert mechanism with a scorebard that monitors a certain set of indicators. After an evaluation by the European Commission, those countries deemed at risk of severe imbalances will be obliged to take corrective action within a given timeframe.

If the relevant Member State has not reacted sufficiently to end the excessive imbalance procedure, another enforcement mechanism enters into force, which works similarly to the one already presented in the excessive deficit procedure. That means: Sanctions up to 0.1% of the country's GDP in the preceding year as well as decision-taking with a reserve voting mechanism among euro zone Member States.

The priority setting towards a strong economic governance framework demonstrates the EU's ability to solve its internal difficulties. The tightening of the rules was stressed by the Economic and Monetary Affairs Committee in the European Parliament, which will be fully involved in the upcoming legislative work.

From the beginning on the Parliament kept an eye on the European Council's working group on Economic Governance, which was lead by President van Rompuy. Discussions around the

indebtedness of European countries have been intensified in the regular monetary dialogue of our Committee with the President of the ECB, Jean-Claude Trichet. Many words have been exchanged. Now, it is time to really implement the ideas in legislation.

The Euro has created a situation of relative stability in Europe, also to the advantage of the world's economies, especially of those that have strong trade and monetary links with the euro area. The EU and the euro zone countries were able to respond to the financial crisis with appropriate corrective measures. The budget consolidation, of course, remains our greatest burden, a burden that will be heavily carried by future generations. The creation of a new regulatory framework is the least we can do...

I am convinced that the ongoing reform of the European governance system will be a further milestone in the success story of the euro. And, I am optimistic that there will more anniversaries to celebrate, not only the first after 10 years.

Finally, the financial crisis creates a new window of opportunity for a new global governance framework. Massive national currency interventions worldwide underline the necessity for Europe to speak as one in international committees. It is out of question that currency management used as a weapon for a "beggar my neighbour - policy" is unacceptable.

The Euro, in that regard, is both an anchor currency and a symbol for European achievements - and it still offers the best hope for the future of European integration - an integration that covers us all: the East, the West, the North and the South.

Thank you very much for your attention.