

HEARING BEFORE THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS (ECON)

ASSESSMENT OF THE FRENCH PRESIDENCY

Chairwoman Berès,

Members of the European Parliament,

It is a pleasure for me to be here with you again for the third time during this Presidency, following the first occasion, when I presented my programme for the Ecofin Council in July, and our Troika exchanges in the month of November. While all of our encounters have taken place against a background of weighty current events, they were also marked by EU progress in responding to a particularly troubled economic and financial environment. Before answering your questions, I would therefore like to say a few words to put our efforts into perspective and offer an initial assessment of these past six months during which France held the Presidency of the Council of the European Union.

1- An objective, a crisis, a European Union in action

(i) An objective: a sound financial sector to ensure effective financing for our economies.

When the Committee and I exchanged views last July on the agenda of the French Presidency, I stressed my desire to enhance the soundness of our financial system, to make it more resilient in times of crisis. We were already seeing the very real difficulties encountered by the financial sector, and although the money markets were not back to normal yet, we were not in a crisis situation. The objective of the Presidency seemed legitimate to you at the time, I believe, but could only be achieved through patient, deep-going efforts requiring full cooperation by the Council and the European Parliament.

(ii) An American crisis with an immediate impact on Europe

As of 15 September, the onset of a crisis of historic proportions prompted a major shift in our assessment of the situation, without, however, affecting our ultimate objective. On that day, the US authorities decided against rescuing Lehman Brothers, thereby triggering a surge of distrust toward all financial institutions. This sent out shock waves that soon reached Europe as well. Banks found themselves in trouble and began turning to governments for support.

(iii) A European Union acting to respond to the crisis

As the financial situation took an abrupt turn for the worse, the policy goal of the Presidency became to **set Europe in motion**, to get it to act quickly in order to stop the contagion and prevent the entire system of financing for the real economy from seizing up.

Indeed, the lesson to be learned from the major financial crises of the past, chief among them the Great Depression of 1929, is that **the crucial decisions have to be made in just a few weeks**, and that a lack of reaction, whether it stems from institutional stalemate, attachment to business as usual or the urge to go it alone, will have grave economic consequences, not to mention political repercussions.

With this in mind, I believe that an **unprecedented mobilisation of the European Union** should be a source of great satisfaction for all of us. At the initiative of the Presidency, the Council and the Member States have thrown all their energy into providing coordinated responses to the crisis. We have taken action in the euro zone framework, not only between Ministers, but also between Heads of State and Government. We have taken action as a group of 27, and at every Ecofin meeting, the Ministers have shown their determination to reach an agreement and make rapid progress. And finally, groups of two, three and four Member States have taken action to support the financial institutions in danger.

The Commission has also moved swiftly to endorse the guarantee schemes required to unfreeze interbank lending. It has been equally proactive in drafting a proposal on deposit guarantees. **The European Central Bank, too, has been of invaluable assistance**, both by stepping in to influence markets and by providing expert guidance on State guarantee and recapitalisation policies.

Finally, I would like to **express my appreciation for everything the Parliament and your Committee in particular have done**. To mention just one example, I know that you adopted the draft report by Christian Ehler on the Deposit Guarantee Schemes Directive last Monday and that a plenary session vote is scheduled for today. **The discussions that you have organised** on the crisis – in which I was unfortunately unable to take part directly – have also helped build awareness and encourage action across Europe.

(iv) A European Union acting in coordination

These past six months have also demonstrated the value of coordinated action. We have succeeded in setting objectives and common rules, while letting Member States implement the necessary plans of action at their own level. And while our work may have been less uniform, it was also faster and more efficient.

On the whole, then, I feel that **we can all take legitimate pride in Europe's proactive response to the crisis** over the last six months. The argument that the citizens have little feeling for a distant, technocratic European Union has been losing ground, because people throughout Europe now sense more clearly that coordinated, resolute action is more effective than isolated national reaction. That, to me, is a decisive point.

2- An unprecedented effort to provide a coordinated response to the financial crisis and economic slowdown

What have we done to respond to the financial crisis and economic slowdown?

(i) Recapitalisation and guarantee schemes as emergency responses to the crisis

In October, Europe made a commitment to **support all distressed financial institutions of systemic importance**. We devised a **recapitalisation doctrine** based on a few key principles such as temporary interventions that reflect a concern for the interests of taxpayers, and the right for governments to make changes in management and see to it that both shareholders and executives shoulder their share of responsibility.

We also moved to support the financial system with guarantee schemes to enable the banks to continue lending to businesses and consumers. There again, we set forth a few basic principles. Any measures introduced must be non-discriminatory, temporary, must include appropriate remuneration and avoid distortion to competition.

The Member States are now committed to providing a total of **280 billion euros for recapitalisation purposes and 1.8 trillion euros in the form of guarantees**.

(ii) Increased coverage for retail deposits

The crisis has highlighted the vital need to **harmonise rules in this area, both to protect citizens and to ensure the soundness of our financial industry**. A lack of common rules will mean more abrupt movements and therefore more instability for citizens and banks alike. As you know, the Council has adopted a General Approach on revision of the Directive, and I have been informed that the Parliament is also working on this issue.

(iii) Determined support for European countries facing difficulties

A number of Member States have been hard hit by the financial crisis. This is particularly true of Hungary, a country that signed an agreement with the IMF on 29 October to deal with its balance of payments difficulties. The Presidency and all the Member States have **supported**

Hungary throughout the process, approving a financial aid plan of 6.5 billion euros that comes in addition to the 12.5 billion euros awarded by the IMF and the 1 billion euros provided by the World Bank. This is the second largest financial commitment the EU has ever made since the Economic and Monetary Union was established (with Italy receiving 8 billion euros in 1993).

Moreover, the Council unanimously agreed at its December meeting to **raise the ceiling on available aid to 25 billion euros**, a move you endorsed on 20 November.

(iv) A recovery plan adopted by the European Council to deal with the slowdown of our economies

As far back as September, the ECOFIN Council was already laying the groundwork for the necessary response to the economic slowdown on the horizon. Since then, **the outlook has become much bleaker**, with the euro zone going into recession for the first time in its history. There is also growing uncertainty that has led to revision after revision of the figures. In our efforts in this area, we have been motivated by **a constant concern for both coordination and realism**. This has induced us to give precedence to a shared “toolkit” that allows each Member State to adopt the stimulus programmes dictated by their specific conditions.

The Communication of the Commission on 26 November is fully in line with this approach. It has been particularly helpful in that it puts forward proposals and sets **a fiscal stimulus target equivalent to 1.5 percent** of the Union’s GDP, with 1.2 percent provided at Member State level and 0.3 percent at EU level. Its focus on **timely, targeted, temporary measures** has met with widespread Member State approval, along with its emphasis on the need to **make full use together of the flexibility offered by the Stability and Growth Pact**, which is still our frame of reference.

The European Council has approved this Recovery Plan and these goals. We must now move energetically to put it into practice in our different national settings. The complete involvement of all is essential if we want Europe to derive the maximum benefit from the Plan.

3- Advances that will enhance the soundness of our financial system but that require the support of Parliament and your Committee in particular

Chairwoman Berès, Members of the European Parliament, as you know, the French Presidency also set itself an extremely challenging legislative agenda. I stressed to you last

July that support from the European Parliament and your Committee in particular would be essential for us to carry out this programme. **If we wish to make genuine progress in ensuring the long-term soundness and stability of Europe's financial system, your support is more vital today than ever.**

What are the main issues in the documents on which the ECOFIN Council adopted a General Approach in December and which are now on your discussion table?

(i) Approval of the revised CRD Directive would lead to enhanced bank supervision and greater control over risk-taking by banks

The document on which the Council adopted a General Approach updates bank supervision by **adjusting it to the reality of European banks with cross-border business** through the creation of "colleges of supervisors". It also incorporates **a European perspective into the mandates of all national supervisory authorities.**

In addition, the document pinpoints the lessons of the current crisis. It places special emphasis on the damage caused by securitisation, which led banks to issue securities whose risk level was unclear even to them and to remove them from their balance sheets. Henceforth, originators will be required to be more transparent about the securitised assets they issue and to maintain 5 percent of the related risk on their balance sheets. This will give them a powerful incentive to curb excessive risk-taking and conduct more effective risk analysis. In this fashion, we will be exercising tighter control over the so-called "originate-to-distribute" model, whose misuse triggered the current crisis.

Finally, the revised Directive represents major progress in terms of EU harmonisation. To mention just one example, we will now have a uniform definition of bank capital across Europe.

(ii) The compromise reached on Solvency II will pave the way for extensive modernisation of insurance industry supervision

As you know, **this point gave rise to complex negotiations, and the Presidency made every effort to come up with a comprehensive compromise package.** The resulting draft directive includes noteworthy advances.

It heightens **transparency** by submitting insurance companies to stricter requirements. It fosters **enhanced risk monitoring and better risk control.** The draft directive also fosters greater recognition for the risks that insurance companies take as investors, rather than merely on their insurance contracts. The market volatility we have been witnessing highlights the unquestionable need for an all-embracing view of risk.

Moreover, the directive represents a big step forward in the area of **insurance industry supervision**. It updates the system by taking into account the reality of companies operating throughout Europe and gives it a more explicitly European character. The directive calls for the establishment of supervisory colleges that bring together the supervisors from the main countries in which each insurance company does business.

We have also provided for procedures to ensure that this Community-wide system will work efficiently in the event of disagreement among the supervisors in a specific college and that selfish national motives do not get the upper hand.

Lastly, the directive serves to **limit pro-cyclical behaviour**. As the current crisis clearly shows, a prudential system that forces market operators to sell their assets when prices are at a low must be avoided at all costs. The Council document makes it possible to reduce such harmful incentives that only amplify market turmoil.

While I am well aware that this is a compromise document, I still believe that it marks real progress. I hope that it provides an adequate basis for moving rapidly ahead with the Parliament and that it can pass first reading.

(iii) And finally, Europe is intensely involved in the international efforts at providing fundamental responses to the flaws in the financial system revealed by the current crisis

Without discussing the G20 work programme in detail, I would like to make just three remarks.

First of all, Europe has played **a leading part in the international efforts to address the crisis**. It was over here that the proposal for the Summit of 15 November emerged. What is more, Europe made that proposal in a spirit of compromise, stressing its desire to include all the relevant stakeholders and to strengthen the institutions of the international community.

Second, **the European Union delivered a single message to the G20, and the majority of our proposals were approved by the international community**. Our insistence that no market segment, no territory and no financial institution must escape regulation or supervision was taken up by the G20, as were our views on supervision of multinational firms and the role of the IMF.

And finally, **Europe has already begun implementing the guidelines set forth by the Heads of State**; if we wish to maintain our current status, it is now essential to go further. The draft directives submitted to the European Parliament contain a number of key points, above all with regard to supervisory colleges and the obligation for banks to keep part of their risks on their balance sheets.

Chairwoman Berès, Members of the European Parliament, the present financial and economic crisis is both a challenge to Europe and an opportunity. I am convinced that if we join forces—the Parliament, the Commission and the Council—and demonstrate our will to take action, we will have a unique opportunity to make Europe a key protagonist—both in the eyes of our fellow citizens and on the international stage.