



**EUROPEAN COMMISSION**

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President of the European Commission

## **President Barroso's speech on the European Semester**

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Thank you Mr President,

President of the European Parliament,

President of the Hellenic Parliament,

President of the European Council,

Distinguished Members of the European Parliament and the national Parliaments,

Ladies and gentlemen,

Let me first of all thank you for the invitation to address this important conference.

I believe the European Parliamentary Week has a very constructive role to play in bringing different voices and opinions together. We need such a meeting of minds to foster the democratic foundations of the European Union.

I think that most of us have a clear ambition for Europe. I think there is a tremendous amount of economic potential still left untapped and we want to find the best ways to make it happen.

And I know that this ambition sometimes leads to impatience, even to constructive criticism – and there is nothing wrong with that. But it is important to remember where we come from and where we are now. The challenges for Europe, in terms of economic governance, were great even before the crisis. And I do not have to tell you how challenging the situation has been ever since. The truth is we had to remodel and repair the boat in the middle of a storm.

And we have been doing it.

The crisis ended up giving us the political momentum to make changes that before the downturn had been unattainable – some of those changes were even unthinkable. Over the years, step by step, we have been changing the economic governance system of the European Union beyond recognition.

That does not mean our current system is perfect, that our work is done, that we live in the best of all worlds. Today's discussions – I am sure – will prove that there is still a lot of room for improvement, and differing views are at the heart of any serious political debate, including this one.

But it does show that we have come a long way - remarkably far, I would say - in a short space of time. And I think we should - while recognising the difficulties that still exist in Europe, namely in terms of unemployment and the social situation that we face in some of our countries - I believe we should be proud of the steps we have made regarding governance at European level and creating conditions for this kind of crisis to not happen again or if it happens, that we have the way to respond to it.

Let's not forget that one year or two years ago people were discussing Greece leaving the euro and now we have Greece here as President of the Council of the European Union. We just heard the President of the Greek Parliament, Greece being a country that is proudly assuming its role at the helm of the European Union.

Let's not forget that some time ago many analysts and so-called experts were predicting the implosion of the euro and just now we have a new member joining the euro, Latvia, after very important reforms and a very tough adjustment programme.

Let's not forget that some time ago people were even, some Cassandras, predicting the disintegration of the European Union, and just recently another Member, Croatia, joined our Union as the 28<sup>th</sup> Member.

Let's not forget that some of the programme countries are now having better conditions in financial markets than countries that did not request programmes and some of them even have higher growth rates than most of the European Union and euro area countries. And indeed some of them are exiting the programmes, like Ireland was successful to do from its full programme or Spain from its financial or banking assistance programme.

So, it is important to know where we were and where we are now and to recognise what were the shortcomings from the beginning.

Let me briefly mention those inadequacies we were confronted with under the previous system:

First and foremost, I believe the European system of governance proved to be too 'soft'. It was insufficient to press member states undertake the structural reforms they clearly needed. Sometimes it was even insufficient to check the national accounts. The European Commission had to rely on statistics that were not always right, because they were done only under national responsibility.

So when the expected reforms within countries or rebalancing between economies did not materialise spontaneously, Europe could take note, but Europe could not take the required corrective actions or make sure they were taken by national governments.

Secondly, in budgetary matters it gave Eurozone members a clear set of targets, the previous governance framework, and handed to the European Commission a loud voice, but not the muscle necessary to make them stick. I don't have to remind you that in the years before the crisis many, if not most of the Eurozone countries were merrily breaching the budgetary limits they had set themselves, and threw caution to the wind when the Commission reminded them of their irresponsibility. But caution them was all we could do at the time.

And I think it's now well established that if some of our Member States were not breaking - as they were breaking - the Stability and Growth Pact they would not have faced - as they faced - very negative consequences when the financial crisis came.

Thirdly, there were absolutely no adequate rules and mechanisms at European level to control the financial sector, while national authorities proved unable to stop problems from spiralling out of control. Let's remind ourselves that financial supervision was completely in the hands of national supervisors. And what happened? In some of the banking systems of our Member States it happened without those national supervisors calling the attention of any difficulties. And only now we have been able to create a Single Supervisory Mechanism. Nor was there a European system to oversee the resolution of banks once they had gone bust, even if it was clear that such a bankruptcy would be too much for an individual government to bear. Because the governments and the national supervisors, in some cases, made it possible that the country was exposed to banking debt that was many, many times the GDP of that country. And all of this happened under the authority of national supervisors.

And finally, more broadly speaking, an incomplete economic and monetary union provided a false sense of security when times were good, and institutional imbalances allowed speculation to spiral out of control once the economic context took a turn for the worse. Uncertainty proved to be our worst enemy.

The unbalanced framework and weakened rules of the EMU were unequal to the task of running the Euro area economy in unstable times. Only by consistently and convincingly starting on the path towards a Deep and Genuine Economic and Monetary Union, in which all strands of our economic, monetary and political union are effectively and fully integrated, could we embark on a credible and sustainable path to correct the situation.

So, let's be clear about this. While the crisis was not provoked by the European Union – indeed the crisis was not born here in Europe, it was born outside it –, while the crisis was fundamentally the result of erratic and in some cases irresponsible behaviour of the financial sector, or the accumulation of excessive debt by the national governments, it is true that the European Union and the euro area were not prepared from a structural and architectural point of view to face this kind of crisis. And we had to react to a very dramatic situation and trying at the same time to be the firefighters fighting the fires and built a new building to accommodate all the euro area and Member States.

Whilst much remains to be done, the situation is entirely different already now:

We have clearer rules – thanks to the so-called six pack and two pack of legislation, approved by the European institutions, we have more focused monitoring and much, much greater coordination of national policies throughout the year. The follow-up of our country specific recommendations under the European Semester is now truly targeted and is fully transparent. We have new, uniform rules for banks, a European system of supervision and we are putting in place a unified system of bank resolution – the last element of a genuine banking union.

Above all, politically we have made the most important point again and again: the Euro is here to stay; we are all in the same boat; and all have to take up our part of the responsibility to make sure we keep the boat dry and the wind in our sails.

That is why today's debate is so important. Economic governance in Europe has fundamentally changed. The outcome of the process now depends not so much on the structure of the system, but success lies in the delivery, namely at national level and in the broad-based legitimacy of the reform efforts in any one member state and in Europe as a whole.

We have to understand that in terms of delivery and legitimacy we have the solution for our problems. And we have to understand – as we have not understood before the crisis – that what happens or does not happen in one country can have a real negative impact on the other countries. That's why we need common economic governance. And we have to do it in a way that is democratically accountable at European level but also at national level.

That is why for implementation and legitimation, the role of the European Parliament and of national parliaments is so important.

So where are we now?

Whether you look at the institutional improvements made over the last few years, the budgetary turnaround – because the deficit has been going down –, the structural reforms implemented or at the economic competitiveness gained – the programme countries in that matter are really an example, how they are now regaining competitiveness – it is impossible to deny that an enormous amount of work has been done. But the economic and social conditions certainly remain difficult and we have above all the drama of unemployment, including the specific problem of youth unemployment.

This is why the 2014 Annual Growth Survey did not change the priorities, the need to have a growth-friendly fiscal consolidation, financing the real economy, because there are still huge differences according to the Member States that should not happen in the same monetary union and that even should be avoided in the same internal market. We are also promoting structural reforms promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, and modernising public administration.

We are now in a turning point in the crisis, with growth slowly returning. We have certainly entered a new phase, but leaving the recession behind is not enough to declare the crisis over. How can we say that the crisis is over when we have so high levels of unemployment? This is why we have to continue to focus our attention on ways to strengthen growth and competitiveness, in order to ensure a lasting recovery.

Ladies and gentlemen,

If political uncertainty was our worst enemy during the crisis, we could only really leave it behind if we sent political assurances that we would fundamentally update our system and – step by step - construct a Deep and Genuine Economic and Monetary Union.

This is very important because sometimes some analysts tend to say that it was because of one or two decisions alone. This is not true. I can tell you based on experience. When we were discussing these matters with our partners from the United States, Russia, China or Japan, the real question they were asking us was not just about the deficit of that country or what the ECB was going to do. It was about our commitment to have a real economic and monetary union.

It was at the end a political issue. And so all the steps taken forward, for instance the very important steps taken by the European Central Bank, were possible only because there was a way forward to establish a deep and genuine economic union, because the Member States have shown commitment in terms of debt, deficit reduction and structural reforms. And because we started, basically following what it was agreed in the so called Four Presidents' report – the report presented by the President of the European Council, together with myself, the President of the Eurogroup and the President of the European Central Bank -, and also the Blueprint of the European Commission, the market started to believe: 'they are going to do it. They are going to change the way they have been doing things in Europe'. Because some time ago, we were the sick man of the world, in the G20 and so forth. And when we took all those decisions people started to believe it: 'they are going to correct some of these imbalances'.

This is why it's so important to conclude now the banking union, and we cannot say the banking union is concluded before we have the Single Resolution Mechanism. That's why I'm appealing to the Council and to Parliament to really make an effort for a compromise to have the agreement before the European elections. And I think both parties have to move, I think it's not acceptable to say: 'we are not going to move at all'. Both parties have to move and I hope the Greek Presidency is supporting, and the European Commission is supporting the Greek Presidency to get that agreement as soon as possible.

We also need to improve our accountability and legitimacy. I've said this to you before: on a multilevel system like Europe, accountability should be ensured at that level where decisions are taken, while it's taking into account other levels where some of the impact will be felt. So we need a better coordination – this is my personal opinion - between the European Parliament and the national parliaments. At the same time we, European Commission, that are accountable to the European Parliament, are ready to work with the national parliaments, in the limits, of course, of our capacity.

We have been doing that, for instance, with a new system we have. Last November we published, for the first time, opinions on draft budgetary plans. Surveillance is now more timely, and politically it has brought the European and the national level even closer together.

When we think about this, dear colleagues, let's think: some years ago, if people would ask if it is going to be possible for the European Commission to have an opinion on the draft budget at national level, most people would have said it's impossible. That would not be thinkable. Now, because of the crisis, it was agreed unanimously by the Member States that this kind of work has to be done.

And it goes without saying that we are willing to engage with the national parliaments. I want to underline that national parliaments retain their full rights in the national budgetary processes. The Commission does not have a veto, does not have the right to change the draft national budgets. But we can discuss this together. And this is important because it's the way that we can deepen this sense of economic governance at European level.

So I believe, based on experience, that now we are doing better the work of the European Semester, but we really need a kind of ownership, because so far some matters haven been only for some political elites and some experts. We don't have yet the idea, at democratic level, of a real ownership, that we are in this together. That when we discuss our budget we need to consult our partners and that we can and should work in this ownership at all levels, between the national and European level.

It is important that the European context is recognised and that in the way countries are run there is also an acknowledgment of the impact of national decisions across their borders.

This is the philosophy that underlies this Parliamentary Week, and it is also why the Commission is eager to follow it up with increased cooperation both with the European and with national parliaments.

I believe we can say that now we are rising above the technical.

We are moving beyond the institutional.

Now, let us deepen a truly political debate about the European Union we want to work towards.

And, as I said before several times in the European Parliament - I'm happy to discuss this with all of your members of national parliaments -, I believe the European Union now is in a moment where we cannot go on pretending it's only technocratic or bureaucratic. More than ever, we need a European Union that is fully democratic.

I thank you for your attention.