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Speech by Mr Anders Borg, Minister for Finance and President of the Ecofin Council

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- It is an honour for me to be here today to present the work program for the ECOFIN Council and the priorities of the Swedish Presidency.
- The economic context is, of course, dominated by the effects of the most severe financial crisis and economic downturn of our lifetimes.
- As I am sure you know, the Swedish Presidency has two overriding priorities for the work of the Council:
 - dealing with the economic and financial crisis and the increasing unemployment; and
 - contributing in a substantive way to the work directed at tackling climate change.
- The ECOFIN Council priorities will reflect the need to pursue measures on a broad policy front:
 - improving supervision and regulation of financial markets,
 - re-establishing sound public finances,
 - tackling labour market challenges,
 - reinvigorating the Lisbon Strategy post 2010, and
 - advancing international climate negotiations
- With the current economic situation it is clear that ECOFIN will be at the centre of our Presidency. A main task will be to continue to manage the effects of the crisis. This includes both tackling the challenges to the real economy, and dealing with weaknesses in the financial markets that the crisis has revealed. The Presidency remains prepared to act if the situation on the financial markets deteriorates.

- I will briefly comment on each of these points.
- Firstly, on supervision, I think we can all agree on the need to reform the current system and restore consumer and investor confidence in the financial markets. A contributing factor to the current financial crisis was that European supervision is bounded by national borders while financial institutions and markets are not. Specifically, no one followed the macro economic financial risks, supervision on cross-border banks was weak, and financial legislation is applied differently within the EU. In short, supervision has primarily been a matter for the individual Member state. I believe that one major lesson from this crisis is that we need a stronger EU supervision that captures macro economic financial risks, that is capable of closely looking on cross-border institutions from a European perspective, and that supports a harmonised application of European legislation. Reforming the EU supervision in this direction is a priority for the Swedish presidency. I warmly welcome the proposal that will be tabled by the Commission on September 23rd. I emphasise the important role of the European Parliament and I'm confident that the Parliament and the Council will work together in a constructive way in order to ensure a swift adoption of these crucial legislative proposals.
- As regards regulation of the financial markets the crisis has clearly shown that we have weaknesses. We need to enhance capital requirements for banks and reduce pro-cyclicality. We need to act against excessive bonus payments and compensation schemes that reward excessive risk taking and we need to find rules that eliminate these excessively large bonus payments based on short-term achievements. Such rules would reward a long term perspective for bank managers and help us avoid situations where we have to bail out the banking sector, to enormous costs to the tax payers and thus the whole society. We also need regulations for institutions and products that are currently not under regulation. The only way to implement the necessary changes is to take a global approach with coordinated and harmonised standards and rules. Together with the European Parliament, the EU can have a strong and leading voice in this process.
- Secondly, concerning public finances. According to the most recent forecast the deficits in the Euro area will increase to an average of 7 % in 2010. The figures are similar for the rest of the EU. Besides, in the coming 50 years the EU countries are expecting a sharp increase in public spending as a result of ageing populations. Taken together, this calls for a discussion to define and prepare a credible strategy for securing the sustainability of public finances, which is also referred to as an "exit strategy". This would include a discussion about how and when to put an end to exceptional measures taken during the last year. The strategy will of course have to be differentiated between Member

states in terms of room for manoeuvre and the fiscal challenge ahead, including future increases in age related expenditure. In order to achieve a sustainable fiscal position I would like to underline one crucial aspect; The Stability and Growth pact is a very helpful tool on EU-level in the recovery work out of the crisis. But we also need to strengthen institutions and fiscal policy frameworks on the national level to secure economic sustainability and sound public finances. For example, stricter budgetary frameworks could help to underpin long term sustainability in public finances. Therefore, this issue will in various respects be present at all ECOFIN meetings during the autumn, not least as regards the implementation of the Stability and Growth pact.

- The issue of sustainability of public finances will be in particular the focus at the ECOFIN in November, in light of the Commission Sustainability report which is foreseen to be presented in October. Furthermore, there will be a discussion on sustainability issues at the informal meeting in Gothenburg in early October.
- Thirdly, on employment and the labour market. Even though we are seeing the economic crisis bottoming out we are still expecting worsening conditions in labour markets across Europe. Responsibility for labour market policies lies within the Member States. Nonetheless, there is an added value of EU cooperation in the exchange of experience and commitments to take measures at the national level. Therefore, I have planned for a thematic discussion on employment policy at the Informal ECOFIN in October, where the main purpose is to discuss how we can limit the risks of people getting permanently excluded from the labour market. More generally, it is important to ensure that all measures and reforms are consistent with the objective to promote higher long-term employment levels. This issue relates to the forth priority – the Lisbon strategy.
- The ECOFIN Council will discuss key aspects of the Strategy in its areas of responsibility. Our aim is - working closely with the incoming Spanish Presidency- to reach agreement in the ECOFIN on the main features of the strategy for the years after 2010. The new strategy should be guided by principles that help our economies to exit the crisis and to improve the growth potential, the adaptability and the resilience of our economies. We also need to develop tools that improve the surveillance process with evidence-based policy approaches and better governance. At the ECOFIN, on the 2nd of December, we aim at reaching council conclusions as a contribution to the December European Council in this matter.
- Fifthly, on climate change, the ECOFIN is responsible for financing issues relating to climate change. We intend to have the ECOFIN establishing conclusions on economic and financial issues relating to this topic at its meeting

on October 20th. Issues relating to climate change will also feature at the Informal ECOFIN in early October. The European Council in October will address all aspects of the negotiations leading up to the summit in Copenhagen. To the extent necessary the European Council will also return to the issue at its meeting in December.

- Besides these main priorities there are several other important questions that will be on the ECOFIN Council's table during the autumn. Let me emphasize that the preparatory work as regards the G20 Summit in late September is an issue of high priority for the Swedish Presidency. Important matters concern for example the governance and resources of IMF as well as financial market reform. The Swedish Presidency will take an active part in the G20 preparations and will make sure that a coordinated EU position is established on relevant topics.
- In the tax field the work on Good Governance in Tax matters (particularly work on taxation of savings income), combating tax fraud, as well as the work on harmonised rules for electronic invoicing in the VAT area, will continue.
- Concerning the annual budget for 2010. The draft general budget of the European Union for the financial year 2010 was adopted unanimously by the Council in July. We are ready to continue the constructive budgetary dialogue with the European Parliament, in order to reach a satisfactory agreement on the 2010 budget at the Budget ECOFIN in November, including further financing of the European economic recovery plan.
- We see the cooperation with the European Parliament, and ECON in particular, as a key for our success and we are looking forward to it. The Troika meeting in December with the EP will be important to this end.
- Once again I would like to thank you for the opportunity to be here. Thank you!