



**EUROPEAN COUNCIL  
THE PRESIDENT**

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**NOT MOVING INTO AN IMAGINARY NEW CASTLE,  
BUT CONSOLIDATING THE FOUNDATIONS OF OUR OWN HOUSE**

**Address to the first congress of Solvay Brussels School**

It is a pleasure to be at this Solvay Conference.

There is a question mark hanging over this conference's title. (The indication of a scientific approach!). The question mark is the double 'X', the unknown end-date of the crisis ("*Crisis 2007 - 20XX*") Are we out of the crisis yet, or not? When can we fill in those final numbers?

I think we are in the post-crisis now. Or at least "post-recession". As Europe is concerned, the latest IMF forecast for economic growth in the European Union is 1,8 percent for 2010; almost the same figure for the Eurozone. This is double of what was expected just a few months ago. Obviously, we still need to do better structurally, but we are in a better shape than a few months ago.

However this does not mean we are out of the danger zone, neither the EU nor the world economy.

Churchill once said: "*The problems of victory are more agreeable than those of defeat, but they are no less difficult.*"

Likewise, we can say today: "The problems of the after-crisis are more agreeable than those of the crisis, but no less difficult." The sense of urgency, which everybody felt at the height of the financial crisis in 2008 and 2009, should not ebb away.

Founded at the height of the crisis, in November 2008, the G20 of major economies embodied this will to cooperate internationally. I thought that the G20 was losing momentum the last six months. The agreement of the G20 Ministers of Finance on IMF reform, on 23 October, was unexpected and most welcome. The Basel-III agreement at the level of central banks is also a positive sign of continued momentum for international cooperation. Now we have to work further on rebalancing trade accounts, with amongst others the debate on exchange rates.

**P R E S S**

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The G20 was successful. The big subject of the first two years was financial regulations. Both the American side and the European side have now put in place what we committed to do. In our case, the European Parliament and the Council of ministers adopted the final package on Financial Regulation last month.

Ladies & Gentlemen,

I should like to go a bit more into a crisis where the ink of the responses we have found is not yet dry, and where I have been involved because of my own function: the public debt crisis in the Eurozone.

The crisis starting in "07" and ending in year "XX", has been a roller-coaster. People held their breath while events unfolded. First a sub-prime crisis. Then a banking and financial crisis. Then an economic crisis and recession (which lasted luckily less than one year). And finally the debt crisis of Greece and the Eurozone of this spring.

I think most observers agree now that the European Union dealt solidly with it. Of course, the events showed some of the tensions inherent in the Economic and Monetary Union. We needed time to find an agreement, but we found it in the end, in a mix of solidarity and responsibility. The Member States showed their solidarity by setting up safety nets and the countries with budgetary and economic problems showed their sense of responsibility by their reform programs.

Bold political decisions were taken, in the span of a weekend, involving hundreds of billions of Euro's. A lot of these decisions were unpopular: for some countries, because of the austerity measures and reforms they implied, for others because of the last resort solidarity it implied.

The end result was positive. That's what counts. In my opinion, the Euro crisis showed above all the very strong political determination to defend the Euro and the Union! One should not underestimate this resolve. Or to use a word which is en vogue: it showed the EU's formidable resilience.

*L'Europe est coriace.*

Our first political duty was to avoid a repetition. As you may know, the European Council asked me to chair a Task Force on reforming economic governance. One week ago, we adopted the final report. The European Council of later this week will deal with a few outstanding questions, in particular with the follow-up of the Task Force. But the main agreement is there. I think all those who participated in the effort -- the Commission, the ECB, the Ministers of Finance -- we all can be proud of it.

Indeed because the European Union made a great leap forward in the European Union's economic governance. The package agreed by the Task force, when validated by the European Council, will be the biggest reform of the Economic and Monetary Union since the Euro was created.

Looking at a comparative table, comparing the current Stability and Growth Pact and the one which would follow from our recommendations, the change is striking. Even a quick look shows the strengthening of the economic governance, with new sanctions, applied earlier on, and easier decision-making. Therefore I reject any criticism suggesting the Task Force softened its stance. On the contrary!

Of course one can go to the drawing table and propose a completely new system. However in the Task Force, we decided not to move into an imaginary new castle, instead we consolidated the foundations of our own house. The recommendations and concrete proposals contained in the report of the Task force go in four directions.

First direction: real economic surveillance.

We recommend to create a mechanism for macro-economic surveillance. This is in my view the biggest innovation. An early warning system will detect the risk of real estate bubbles or of unsustainable patterns on the balance of payments, or strong divergences in competitiveness. These types of risks were neglected in the first decade of the euro.

The crisis has shown that sound budgets are not enough to guarantee sustainable economic growth. That's why we recommend this surveillance mechanism, as a macro-economic pendant of the budget-focused Pact. Ultimately this may result in sanctions for countries in the Eurozone only. It will strengthen the economic pillar of the Economic and Monetary Union.

Second direction: greater fiscal discipline, a stronger Stability and Growth Pact.

The main principles are:

- A wider range of sanctions and measures, both financial and political;
- More focus on the public debt criterion, which used to be disregarded;
- An adapted timing, with sanctions kicking in at an earlier stage.

We found a consensus on how to implement these general principles. One element is the agreement on easier decision making. For the decision on all new sanctions, the so-called reversed majority rule will apply: a Commission recommendation on sanctions will be adopted unless a qualified majority of Member States in the Council votes against.

Two further remarks on the Pact.

Firstly, balanced budgets are not a goal in themselves. We take these measures because fiscal sustainability creates confidence and lays the basis for economic growth and jobs. It creates also sufficient budgetary space for financing the cost of ageing populations.

Secondly, the Task Force's commitment to a stronger Pact was high from the beginning to the end. I was impressed by the determination of the Member-States to impose these self-constraints. The Treaty gives them -- and nobody else -- a decisive responsibility. They are ready to take it. The full package now at the table will make our Economic and Monetary Union more solid.

Third direction, the Task-Force recommends: deeper and broader coordination, notably through the "European Semester". This is a new form of ex-ante budget coordination amongst Member States. It was already decided and will apply as of 2011. Each spring, it will allow a simultaneous assessment of both budgetary measures and structural economic reforms. It allows the European consequences of policy decisions to play a role in the subsequent regular national parliamentary and public debates. Thus the Semester will increase the awareness that the decisions of one, affect all.

Fourth direction: a more robust framework for crisis management. The Task Force considers there is a need for a credible crisis resolution framework for the euro area in the medium term. It should be capable of addressing financial distress and preventing contagion from one country to another. It must avoid the moral hazard implicit in any ex-ante rescue scheme. The precise features and operational means of such a crisis mechanism will require further work. The European Council of this week will decide what form this work will take.

Taken separately, some of these reforms may seem small steps. Together, they are a major step forward.

This spring the European Union won the battle of the Euro. We took far-reaching decisions under the pressure of events. Now, without such pressure, we show the responsibility to draw the right lessons from the crisis. These recommendations provide a resolute response to a great challenge.

Before concluding, it may be useful to open a wider perspective on what these proposals aim for.

The Euro has been unique from the start: a monetary union with a decentralised fiscal framework. Thanks to the single currency and the internal market our Member States are deeply integrated (both the 16 and the 27). The crisis has shown how deeply! Everybody discovered that the decision of one Member State potentially affects all. However, Member States are responsible for their own fiscal and economic policies and they will remain so.

All recommendations will allow us to much better deal with this unique situation. Basically they all aim for one of two things.

On the one hand: making sure that each Member State fully takes into account the impact of its economic and fiscal decisions on its partners, and on the stability of European Union as a whole. We achieve this with a mix of more intense cooperation and stronger constraints.

On the other hand: strengthening the EU's capacity to react when policies in one Member State present a risk to the rest of the Union.

In short: helping each to behave responsibly, and stepping in when irresponsible behaviour of one member affects the ensemble.

The recent crisis has sharpened our minds. The financial markets keep us under pressure, not always in an economically justified manner, but there is pressure. We have been able to make proposals which were unthinkable only a few months ago, and to finish earlier than originally planned. In this respect, the Task Force has worked like a pressure cooker. Everybody has contributed actively, the Commission, the Central Bank and the Ministers of Finance. This has allowed us to accelerate the process, thanks also to the close link with the European Council. Later this week, I will ask the political backing of the Heads of State and Government. I am confident that the regular legislative process will then be able to translate our political agreement into legislative form. These measures should be in place as quickly as possible. It is our common duty.

Ladies & Gentlemen,

These are the lessons drawn on economic governance in the EU, on the political side. They are one important piece of the puzzle.

Other important pieces concern financial regulation and corporate governance. I am sure you are all looking forward to hear the views of the eminent speakers after myself to shed light on those issues.

A final word on the Task Force.

With the measures now at the table, we have not solved all future problems. History will remain full of surprises. However, we did draw the lessons to avoid the risks we now know.

In my view, the events of the year 2007 until the year 20-'XX' have shown a European Union rising to the occasion. We stumbled a little, but we did not fall. In the end, we acted in time.

We will lay the foundations for renewed economic growth. A lot of countries are engaged in reform programs which are not popular in a populist political climate. But they stick to reforms. There is more political courage than most people think.

There is never an "acquis" in economics, certainly not in such a hypercompetitive environment as ours, in the world. We also need to strengthen our economic infrastructure to play a role on the world stage, to defend European interests and values. We need a strong economy for internal and external reasons. That's why we need more Europe; it is as simple as that.

Thank you.

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