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A CONVERSATION WITH EUROPEAN POLICYMAKERS

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Introduction:

STROBE TALBOTT
President
The Brookings Institution

Panelists:

OLLI REHN
Vice President and European Commissioner,
Economic and Monetary Affairs, and the Euro
European Commission

JEROEN DIJSSELBLOEM
Minister of Finance, Kingdom of Netherlands
President, The Eurogroup

KLAUS REGLING
Managing Director
European Finance Stability Mechanism

WERNER HOYER
President
European Investment Bank

JORG ASMUSSEN
Executive Board Member
European Central Bank

Moderator:

KEMAL DERVIŞ
Vice President and Director, Global Economy and Development
The Brookings Institution

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P R O C E E D I N G S

MR. TALBOTT: Good afternoon, everybody. It's turned into a lovely day outside, and I'm glad that so many of you were willing to spend this part of the end of the day here, for what is going to be a very important conversation.

I noticed that there are quite a few people standing in the back. There is an overflow room right next door. So, either now or when your legs get tired, please take advantage of that.

I'm Strobe Talbott, and it's my great pleasure to kick off what promises to be a particularly time and highly expert discussion of the eurozone.

Now I should say -- and there are a number of our friends from the other side of the Atlantic here -- that on this side of the Atlantic, the eurozone -- or the word "eurozone" -- was not actually all that common here in the United States, up until a couple of year ago.

But that has now changed, and it's changed, of course, for troubling and melancholy reasons.

Now the word conjures up a zone of crisis, of hardship, of acrimony, of European disunion, and the threat of the recovery of our global economy -- and, I might add, with considerably implications for our recovery from the Great Recession here in the United States.

In short, "eurozone" has become part of the vocabulary of the bad news of the last several years.

So, I think it might be appropriate, before we go further into this subject, to step back a little bit, and look at the issue in historical context.

The euro -- the currency, the euro -- and the 17 countries for which it's common currency are integral to a giant piece of good news over the last 60 years -- and that's the European Project, which has transformed a continent and, indeed, the world itself very much for the better.

Before Jean Monnet and Robert Schuman came up with the idea of a united Europe -- with crucial support, by the way, from the United States -- Europe was the single bloodiest piece of real estate on the planet.

It had been the cause of the bloodiest half-century in the history of humanity. It was the epicenter of two World Wars, two totalitarian empires, a Great Depression, a huge genocide, a Cold War that took us to the brink of World War III and nuclear Armageddon. You can't get much worse bad news than that.

Flash ahead 60 plus years -- as a direct result of the idea of a united Europe, Europe is now a zone of peace. And we should keep that phrase in mind -- a zone of peace -- as we look at the troubles besetting the eurozone.

And it's worth bearing in mind, as we listen to the five guests of honor that we're going to be hearing from shortly, that they are devoting all of their energy to keeping the European Project alive, and putting it back on a promising track.

Olli Rehn, who I've had the honor of knowing for quite some years, in a number of capacities in which he has served this project, is now the EC's Vice President for Economic and Monetary Affairs.

We will be joined shortly by Jeroen Dijsselbloem, the Finance Minister of the Netherlands, and President of the Eurogroup.

Klaus Regling, the Managing Director of the European Stability Mechanism.

Werner Hoyer, the President of the European Investment Bank.

And Jorg Asmussen, an Executive Board Member of the ECB.

They are, as you all would guess, in Washington for the IMF and World Bank meetings that begin tomorrow, and will run through Sunday.

Given the complexity and importance of the agenda -- and, by the way, the stakes of those meetings were all very grateful that they would spend some time with us this afternoon.

My friend and colleague, Kemal Dervis, the Vice President and Director of our Global Economy and Development Program, will moderate the conversation. And I'm going to turn it over to him right now.

But one other note -- for many, many years, part of my job when opening a session like this was to ask everybody to turn off their mobiles. You're allowed to keep your mobiles on, as long as they're on silent, and on the condition that you tweet the proceedings -- by the way, not a phrase I ever thought would pass my lips.

And if you want to do that, and if you're competent to do that, you can do so with #eurofwd, which stands for "euro forward." Let's hope that sets the theme for what we hope will be the outcome of the efforts of these gentlemen and everybody else who's working on this very important issue.

Kemal, over to you.

MR. DERVIS: Well, good evening, everybody, and thank you, Strobe, for this introduction. And thank you, above all, to the five European leaders -- one of them is going to join us soon -- who are taking this opportunity to give a message of strength and of hope, and do it jointly. And I think that's very highly appreciated.

This is an event jointly organized with the Foreign Policy Program, with the Center for the U.S. and Europe at Brookings, and the Global Economics and Development Program.

I won't take more of your time, but just let me give you a brief overview of what we're going to do.

Each of our guests will take between eight and nine minutes to give us some remarks from the podium. They prefer that, I think. Given the number of people, it makes more sense. Then we will have a conversation among the panelists that I will try to encourage. And then we'll open for questions from the floor, and then we will have a reception, graciously hosted by the EIB in the room right next door.

So, without taking any more time, I hand it over to Olli Rehn to start.

MR. REHN: Thank you. Thank you, Kemal. Thank you, Strobe, for your very kind words of introduction. Ladies and gentlemen -- first of all, many thanks to the Brookings Institution for agreeing to organize this event on Europe's challenges and policy responses.

We, in fact, decided to join forces this time. We have often had different kinds of -- usually had different kinds of individual events here in Washington. We thought this time, it's better that we join our forces, and we provide you our views and insights from different angles of European policymakers dealing with the debt crisis and how to overcome it.

And, in fact, when Strobe was saying that we have different experiences in the past, in different capacities, I must say that sometimes, during these crisis years over the European debt crisis and the preceding global financial crisis, I must say that I have recalled our common experiences in Southeastern Europe -- be it the stabilization of the Western Balkans, or the access to negotiations with Turkey. And I have been tempted to say, sometimes, that those were the good old days.

But they will return, and we will come back to that time when the E.U. still has more transformative power, which is at the heart of the European Project.

Let me kick off with an overview of the European economy, and I'll do it by having two angles, in a way that you have two ways of seeing the European economy.

In the short-term, you see a very dualistic picture, often quite negative picture, with high levels of unemployment in many member states, and relatively low growth in Europe.

Or you can take the more medium-term view, which focuses on the rebalancing of the eurozone economy, which is currently underway.

It is true that, in the short-term, we have a dualistic picture of the European economy. What I mean is that, while the real economy is still in stagnation or recession, on the other hand, the worst market tensions have been easing since last summer, and as the market forces have internalized that the euro is irreversible.

We expect Europe to return to growth gradually, in the course of this year, in the second half of this year, 2013. And we project that the recovery should become more robust as we move into 2014, next year.

From the medium-term standpoint, the focus can be put on the rebalancing of the eurozone economy.

The current crisis reflects an ongoing but protracted assessment of balance sheets of the public and private sector, after the essentially global credit boom over the last decade or the first decade of this millennium.

In some European economies, debt levels of households, companies, and governments are still very high. They have been reduced, but deleveraging pressures will only abate the (inaudible).

External assessment through the current account is proceeding, but it needs to continue and, in some countries, intensify.

Overall, the eurozone current account is turning to surplus, and we see that countries like Italy, Spain, Portugal -- early on, Ireland -- are turning to current account surplus. And we see that the divergences incumbent in this are being produced in these countries.

Also, the export performance of many vulnerable member states of the eurozone is improving -- in Ireland already, since 2011. In Spain, the export's 20 percent over the past two years, but there is still more room to do for Spain, because the export share of the national economy in Spain is now at the level of 32 percentage. The European average is 45, and in Germany, it is about 50 percent.

To address these challenges, we have put in place a comprehensive policy response, and the main pillars are the following three ones -- with the perspective of, respectively, short term, medium term, and longer term.

In the short term, financial firewalls that underpin the irreversibility of the euro -- I trust Klaus Regling will say more about the European stability mechanism which is at the heart of this (inaudible).

In the medium term, we are pursuing structural reforms, in order to boost growth and job creation, in tandem with consistent consolidation of public finances.

And in the long term, we are focusing on reform and reinforcement of the economic and monetary union, essentially rebuilding the architecture of the economic and monetary union.

The current efforts are pretty much focused on the construction of a banking union, to which I believe the Member of the ECB Board, Jorg Asmussen, will focus in his intervention.

As regards the financial firewalls, the European stability mechanism is in place since last summer. And together with the announcement of the ECB on outright monetary transactions, this is a very substantial contribution to financial stability, as market developments show over the past year or so.

These firewalls come with strict and effective conditionality, and this means that the fiscal and structural reforms are at the beginning of the causalated (?) chain of improving financing and economic conditions. And without those efforts, the financial firewalls, indeed, could not be effective in the medium to long-term.

To illustrate our commitment to the eurozone, last weekend, decided to extend the loan maturities of ESM loans for Ireland and Portugal by seven years, in order to help them to return to market funding, and to exit from the program in a successful and sustainable manner.

In the long term, the most painful lesson from the crisis was that our institutional structure was inadequate and incomplete for economic and monetary union.

Therefore, over the last years, we have significantly reinforced our economic governance that is both the counter-surveillance and economic policy coordination -- of course, because our economics are so closely interknit.

But, as you know, the European Union remains made of sovereign nations, sovereign member states, and, further, transfers of sovereignty have to be legitimated by the democratic process. This is why furthering the gradual steps -- in particular, as regards a further mutualization of fiscal risk -- go hand-in-hand with a debate on national budgetary autonomy and reinforcement of or deepening of decision-making in both economic and political (inaudible).

However, the European Union has firmly embarked on this process, and with the recent political agreement on the senior supervisory mechanism and a further resolution mechanism in the pipeline, we trust that Europe is making crucial steps towards the banking union.

Let me finish by brief remarks on the current academic debate on economics and economic history, economic statistics -- especially the relationship between high levels of public debt and rates of economic growth -- even though you might also recall a debate which has been running for the past half year on the exact insights of the fiscal multipliers.

I'm following with great interest this discussion between academics, and, having said that, it's, of course, clear that we do not design our policies on the basis of any single piece of research.

We design our policies on the basis of a comprehensive assessment growing on (inaudible) studies in economic history, so on, and so forth -- but, also, of course, on the basis of our own economic analysis.

The relationship between the level of public debt and the rate of economic growth is a very complex one. This affected, also, by many country-specific factors. For instance, the United States has the advantage of an international reserve currency, which gives it much greater debt tolerance than, say, a small eurozone country, as the market discipline and higher interest rates tend to heat smaller states and smaller eurozone countries much earlier than a country with an (inaudible) reserve currency.

Our overriding objective is, in Europe, sustainable growth, and we are working hard on many fronts to achieve that objective through structural reforms, to boost the competitiveness and job creation through financial sector repair, to get credit flowing again to enterprises and households -- and, yes, through consistent fiscal consolidation (inaudible) and at a pace that is appropriate for each country.

So, sum up the crisis that many European countries are experiencing is driven by an assessment in balance sheets after an unsustainable buildup of microeconomic imbalances and of public and private debt.

There is no silver bullet and no single solution for all countries. Instead, it is clear that we will only have sustainable growth and job creation once it is built on the solid foundations of sound public finances.

Thank you very much for your attention.

MR. ASMUSSEN: Yes, ladies and gentlemen, let me first thank the Brookings Institute for inviting us Europeans today here. It's a real pleasure for me to represent Europe, together with distinguished colleagues and friends here today in Washington.

I want to concentrate my remarks on two issues. The first one is the state of financial stability in Europe, and, second, on the progress we've made towards the banking union

And I think it's fair to say that financial stability in Europe has improved over the last six to nine months. This is also acknowledged by the IMF and the Global Financial Stability Report. And I think that the stress for the euro area financial system has eased tangibly.

And some market commentators see this kind of what they call "great risk normalization" as the overarching topic for trades and trading strategies this year. And I think this trend of normalizing risk is still intact, and I think it can be substantiated by giving you some facts -- what has happened in European financial markets in the last months where we have seen a decreased level of fragmentation, but the fragmentation is still there, and is a concern to us.

But, first, we have seen significant reduction of spreads and yields of stressed countries' sovereign bonds. For example, the 10-year bonds have declined for Spain from 7.6 percent to, currently, 4.7. And for Italy, the peak was 6.6, and we are now down to 4.3.

Second, what we can see is that bank debt funding conditions have improved early this year, and this can be seen in terms of lower financing costs for banks.

Third, we see that deposits of euro area residents in banks in stressed countries have increased about 130 billion, since last August.

Fourth -- and this is watched very carefully in a number of countries -- the target to balances of national and central banks in these countries, they have declined by more than 200 million euros -- or around 20 percent, compared to their peak last summer.

And fifth and finally, we can see that the banks' independence on central bank intermediation is waning. For example, out of the gross amount of our long-term refinancing operations -- that was, gross, about 1,000 billion euros. But ¼ has been repaid -- has been early repaid -- and, also, by a number of banks in peripheral countries.

And if you look at the banking sector as a whole, we can see that the aggregate solvency position of euro area banks has been steadily improving. For large and complex banks, the (inaudible) ratio reached 11 percent at the end of last year -- and this is up from less than 7 percent, compared to end 2008.

But notwithstanding these clear improvements in resilience, we can see that capital buffers are spread unevenly throughout the banking system, and this brings a question to arise: Do we know enough about the quality of bank balance sheets? And are the banks capable to absorb potential future losses?

And I think that clarity about balance sheet valuation and recognition of unrecoverable losses would be helpful to boost the confidence in banks' calculation of risk-weighted assets.

Since a healthy banking sector that stands on a sounder foundation would be helpful -- to say the least -- in the context of setting up a single euro area supervisor -- and this leads me to the second (inaudible) I want to talk about. This is the progress towards a banking union.

Because recently, *the Economist* was speculating that we in Europe might turn away from the promised banking union, towards a banking disunion. And I think banking sectors that act as regional finance will perhaps require vigilant supervision. And this applies especially to cases where capital flows on the liability sides are finance and growth pools of domestic assets. That has to be ensured that undue investment risks are not taken, on the basis of that's a fickle capital.

And some commentators noted that, if only the banking union had already been in place, developments in Cyprus could have gone differently, and I think they have a point.

So, just to recall -- why are we establishing a banking union? And for us at the ECB -- and this is true for all partners here -- this is the key project that we have this year in Europe.

It's, first, because it will break the vicious feedback between weak banks and weak sovereigns.

Second, it will help to restore the proper transmission of our monetary policy.

And third, it will improve the incentives for proper supervision, and limit the ability to any prospective regulatory capture.

In essence, it means the banking union is a means to fully reap the benefits of the European financial market integration, while, at the same time, containing the risks of financial contagion. And, currently, we can talk about the banking union project, since we do not have such a union yet.

This is why, then, often questions are asked in a skeptical way: Where do you stand on the process? Do you make progress?

And I think we are making progress. Despite the fact that the rather benign market situation over the recent weeks and months seem to have lulled some policymakers in the false sense of complacency, some media were questioning if our ambition for a banking union was waning. Some voices could be heard from countries -- they suggested backtracking on the ESM direct bank recap.

And I think this all would be a wrong direction. We urgently need the banking union, with all its elements. And the first one is the European banking supervision -- or what we call the senior supervisory mechanism -- SSM. And here, we have reached an agreement on the European lawmaking procedure between the European Parliament, the Council, and the Commission in March.

Some technical details need to be clarified, but once this is done, I would expect that the regulation that we need for this will be formally adopted by the middle of this year.

And for us at the ECB, the preparations for this task of being European banking supervisors are in full swing. On this, we closely cooperate with national supervisors, and we already have started the work at the staff level, for a stock-taking exercise of existing supervisory issues and practices.

And the final decisions on the organizational structure, the hiring of people, the hiring of buildings -- this only can start once the regulation has been formally adopted. And this is why the swift adoption of the legislation is now crucial. And we expect to take over the task of a European banking supervisor in March next year.

And what we need, at the same time, to be in place is the second key element of the banking union. We need clarity about European framework for banking resolution, in line with the existing FSP guidelines. And this should come hand-in-hand with a single resolution fund, which is funded by the banking industry itself, by levies, and not by a taxpayer's money.

And before we at the ECB take over the task as a single supervisor, I would strongly advise to conduct a thorough and credible asset-quality review of those banks which will be supervised by the ECB, because it's key for the successful start in the new supervisory world that we have a clear picture of the risk and vulnerabilities in the European banking industry, and then communicate this to global investors.

So, the noise about the progress about the banking union is a little bit mixed, but I think we are making real progress in Europe on the ground. It might be a bit the situation as the former Treasury Secretary, Hank Paulson, once said. He said, "When things look the bleakest, they almost never are as bad as they seem. Similarly, when they look too good to be true, they almost always are."

So, I think we are making progress. Banking union is the key project for this year, but then there is no way to stop that we correct all the design flaws of the European Monetary Union. And we need to move on with other projects, to deal with these other topics -- fiscal union and democratically legitimized political union.

So, there's a lot of things to do, but I think we have made real progress in Europe, in the last, especially, 18 months.

Thank you very much for your attention.

MR. REGLING: Good afternoon. My job is to talk about the financial backstops that we created in Europe, EFSF and ESM, but let me first explain how it fits into the overall strategy. If you listen carefully, I think you are getting the overall picture. Our strategy then responds to the euro crisis as five elements.

First, the necessary adjustment at the national level -- already talked about that: fiscal consolidation, improvement in competitiveness, reducing current account deficits, and all these things -- good progress there.

Second, much like the roads for economic policy coordination in the euro area -- already mentioned. I will not go into details.

Third, strengthening of banks, and the banking sector, and financial markets, on the way to the banking union that Jorg Asmussen talked about.

Fourth, the financial backstops -- and I'll talk more about that.

And fifth, to do everything possible to stimulate growth in the euro area -- and in the U.S. I'm sure we will hear more about that.

So, that's the framework you have to keep in mind -- these five elements. Financial backstops is one of them. it's an important one. It's not the only one. Sometimes, markets have only been shouting that we should increase the firewalls, because then the solution would be easy. We are convinced money alone will not solve the crisis, but money can be very important, and is very important, to support the adjustment process in our member states, and all the other developments that are part of the overall strategy.

So, on the backstops, the EFSF was created in 2010, the ESM in 2012. This is something that was not foreseen in the initial design of monetary union; we thought it would not be needed, that capital flows would even out in the monetary union -- no problem. We did not anticipate a crisis like we have seen the last three years -- the worst crisis in 80 years.

So, it was decided to create these financial backstops. EFSF and

ESM have a combined firepower of 700 billion euro. We have two institutions. The EFSF, on a temporary basis, finances the initial three country funds for Ireland, Portugal, and Greece. And if we disburse everything that is committed, this would add up to almost 200 billion euro.

The ESM is the permanent mechanism, with a firepower of 500 billion euro. Based on international treaty with a capital of 700 billion euro, of which 80 billion euro is paid in; it's the largest paid-in capital of any international institution.

So, we have these two, at the moment, running in parallel to institutions, to balance sheets. It's all one staff.

All our lending is only done with conditionality -- something loaned very clearly from the IMF approach. Unconditional financing does not bring adjustment; it's conditionality that really shows an impact.

And we see this very well in the countries where we are providing financial assistance -- Ireland, Portugal, Greece. We see significant progress in improvement, and competitiveness, and reduction in fiscal balances and current account deficits.

So, at the moment, we are financing from the EFSF -- Ireland, Portugal, and Greece. The ESM -- that only became operational late last year -- finances a Spanish banking restructuring, and, very likely, will start financing the Cypriot program next month.

But, even then, 90 percent of the resource of the ESM are uncommitted, so there is a lot of money left for whatever problems may come up. I hope they don't, that there are no more problems, but if there were, the firepower in itself will not be the limiting factor.

There's one important difference between EFSF/ESM -- the financial backstops -- and the IMF. On the instrument side, they are quite similar. We finance risk conditionality, macroeconomic adjustment programs. We can have precautionary programs. We also have a few instruments that the IMF does not have.

But the big difference is that we have to get our money in the markets first. When the IMF has a program, they get the money automatically from the central banks that are members of the IMF, through the membership of countries.

We have to go to the markets. The EFSF has done that. The ESM is beginning to do it. We issue short-term builds from one month up to long-term bonds to 30 years. We have raised in the markets, during the last two years, 60 billion euro in bonds, and around 20, 25 billion in short-term builds.

We are quite successful. We have AAA or AA+ rating. For instance, last week, when we issued the biggest supranational bond ever, a five-year bond, eight billion, we paid slightly less than one percent of the market. And that's, of course, the item of benefit for the borrowing countries that get the financing from us at funding cost -- just a very, very small margin -- much cheaper money than they get from the IMF. That helps them. That's the contribution from the European partners to the countries that need financial assistance.

In the difficult process of adjustment, they get this money with very long maturities at very low interest rates.

Going forward, the ESM will be a permanent institution that will be always available to stabilize the euro area. Conditionality is really the key, as I already mentioned. There will be the next step coming next year, probably in the context of the move to banking union.

The ESM will, very likely, be also authorized to recapitalize banks directly. We are working on the details at the moment. It's part of the general move to banking union that Jorg Asmussen talked about.

And there's one other important element -- the potential cooperation between the ESM and the European Central Bank, in the context of OMT, where the conditionality of the ESM can be combined, in an efficient way, with the unremitted firepower of the ECB. So, a country needs to request an ESM program first, and then the ECB has declared that they are then willing to look at the possibility of intervention in the secondary market.

It has not been used so far, but it has had positive impacts on the market, because they know it's there, as an instrument, as a possibility, and this has contributed to markets calming down. It can be activated, if needed, and that will be another important role for the ESM in the future.

Thank you very much.

MR. HOYER: Well, ladies and gentlemen, thank you very much -- also, to Brookings, for inviting us. It's great to be back here -- and to show, together with my colleagues, that Europe has a coherent strategy, a coherent response to the crisis, with divided roles, but shared results. And it's good that we have the opportunity to present this together to you tonight.

At a time when the banking sector is deleveraging in Europe -- especially in the long maturities segment -- and in the more vulnerable countries, of course -- then the European investment bank plays an ever-more important role in the economic adjustment process.

Now I am heading the European Investment Bank, and most of you don't have any idea what that is -- like most people in Europe don't have any idea what that is.

It is, at the same time, the least-known and, by far, the biggest multilateral lender worldwide. And this brings about a considerable firepower when it comes to the fight against growth gaps, when it comes to the fight against unemployment, when it comes to restarting the growth engine.

The bank made a U-turn last year, and moved from a necessarily pro-cyclical course to a countercyclical course, following a capital increase decided by the E.U. member states.

I'm thrilled by the present discussion in the United States about the establishment of an infrastructure bank, following, a little bit, the ideas of what we have here, but the volumes they are talking about here is minimal in comparison to what already exists in Europe, with a bank that has grown in the woods of Luxembourg over 50 years, to a dimension that is second to none in the world today.

The paid-in-capital injection of 10 billion euro alone will mobilize additional investments by the bank of about 60 billion euros, prompting subsequent and overall investment volume of up to 180 billion euros in the period during 2013 to 2015.

Now this comes on top of the lending activities of the bank, which, overall, will be -- in this year -- 70 billion euros.

As a result of the capital injection, the EIB will step up its lending activities by more than 40 percent per annum for strength, and then growth, and creating jobs in Europe.

And we will ensure the most effective response, addressing specific investment needs, by using U financial instruments to alleviate financial constraints -- in particular, when it comes to small and medium-sized enterprises, which, presently, in many countries in Europe, have special problems accessing banks and the markets.

For instance, the bank is particularly active in Greece, of course. By the way, the EIB's not only the institution that remains active there, but it has stepped up its activities, and it's using new instruments.

For instance, we have installed a 500-million euro trade finance facility for the first time, to support a trade volume in Greece of 1.5 billion euro per year.

In Portugal, the banks signed an innovative portfolio state guarantee, which provides for a lending envelope of up to 600 billion euro over next years.

Moreover, the Bank and the European Commission have developed a number of joint financial instruments, to use funds of the union, in the most efficient way, and to generate significant leveraging effects.

For example, undrawn funds from the E.U. budget provide guarantees for the EIB to remain active in countries where many other investors have reduced their business -- or withdrawn completely.

Another innovative way to promote long-term finance is the enhancing of credits -- is exactly what the Joint Project Bond Initiative by the European Commission and the EIB is trying to achieve. Currently, we are in the pilot phase, and we will do everything to make it a success. We believe that additional private money can be lured into the financing of public infrastructure this way. It's a new, additional tool in the toolbox of the European Union and European Investment Bank.

The EIB is also contributing with its established expertise to project preparation and appraisal. The Bank takes a very, very close and detailed look at the project it finances, in order to obtain a broader assessment of the value of the project's income, passing the environmental, social, economic, and financial dimensions.

In cooperation with the European Commission, the Bank has expanded in recent years its project analysis capacity to provide technical assistance on the design and delivery for high-quality and innovative projects.

Ladies and gentlemen, there is no doubt -- within the European response, the Bank has a well-defined role to play. With a balance sheet of more than 500 billion euros, $650 billion, EIB plays a major role by financing SMEs and growth-oriented projects, but also by improving investment absorption capacity.

Well, the Bank is not a bailout bank or the bank of the eurozone; it's the bank of all 27 -- soon 28 -- member states of the European Union, and works very closely together with the European Commission.

And for a AAA bank, borrowing between 70 billion euros and 80 billion euros for a year -- that's roughly $100 billion -- private capital, and competitiveness markets, it is of the utmost importance to continue to pay the highest attention to the high quality of the loan book, with practically no impaired loans.

The stable credit capital, and, of course, the ratio, and the conservative risk management aligned with best market practice, as well as with strict internal regulatory compliance rules. By the way, almost half of private capital raised on the markets come from outside the E.U., which underlines the confidence that international investors do have in Europe.

And I'd say almost 50 percent from outside of Europe -- then, by far, the biggest chunk of it -- from Asia and Latin America, and there could be much more done with the United States of America, when it comes to this confidence in Europe, and the trust, and the development there.

Let me conclude. We do have a coherent response to tackle the European debt crisis. The E.U. Bank is ready to play its role to promote growth and jobs in Europe.

Thank you very much for listening.

MR. DIJSSELBLOEM: I guess -- good evening. Is it evening? Almost.

I guess I should follow up immediately now with my speech, but, of course, I don't know what the others have said. So, we could also immediately jump to questions and answers. I'm open for everything. I'll leave it up to you.

I could also give you my speech. I'll try and keep it short, and then we'll go to questions and answers.

Thank you very much for inviting me, and allowing me to join this distinguished panel, which has had a lot more experience, and has contributed a lot more than I have in dealing with the challenges that the eurozone is facing over the last couple of years.

We have taken action to manage the crisis, and have given the euro area the system, the instruments, and the means to tame the crisis -- and to strengthen the fabric of our monetary integration.

The strong governance framework has been put in place, backed up by a permanent safety net, and now we must continue in the chosen direction to boost Europe's growth potential, and assure that our economies create jobs.

We need to do three things, at least. We have to continue to work on balanced budgets, as we cannot return to the debt-fueled growth of the past. We need to continue repairing and strengthening our banking system, as history shows that weak banks can stall growth for decades. And we need to keep up the structural reforms on governments, institutions, on social arrangements, and of markets -- and thus creating a climate in which enterprise and innovation thrives. That's the only way to return to sustainable economic growth.

In the last years, we've worked very hard to improve our budgetary institutions. And this year, we have a new and credible framework that enforces budgetary discipline, while allowing sufficient room for maneuver -- taking into account individual member states' economic situation.

Continuing banking sector repair is crucial to restore full confidence in European banks -- to ensure a healthy credit supply for enterprise, and to help kickstart the recovery.

And Europe is working towards a full banking union, aiming to strengthen eurozone bank supervision and generally integrated crisis resolution tools.

I see our progress on the banking union as one of the major accomplishments over the last couple of months. We've managed to lay the foundations for European banking supervision in less than a year's time, and we expect the ECB to take up its role in the second half or mid-next year.

At the same time, agreement was reached on the capital requirements directive, CRD4.

We are equally ambitious when it comes to the instruments needed in case of resolution of banks. Effective resolution requires, first and foremost, that in the unfortunate event that things go wrong, costs are borne by those who have profited from banks' risk-taking.

A clear pecking order of creditors should provide clarity to markets, and the recovery and resolution directive will do so in the next couple of months.

A harmonized European regime with a single resolution authority is of the utmost priority, and we will deal with proposals from the European Commission this summer.

Ladies and gentlemen, when I took on the task of Chairman of the Eurogroup, I highlighted my ambition for the Eurogroup to move away from the crisis mode, to a more structural debate on how to further enhance growth and competitiveness throughout the eurozone.

We must find ways to replace the jobs that are lost in the crisis, with new jobs and new opportunities. For this, our structural reform agenda is focused on creating a climate of entrepreneurship and innovation.

One of the main issues to deal with there is the labor market. In recent years, the gradual increase of pension age to between 67, 69 years was adopted in 14 European countries -- among them Italy, Greece, Germany, Spain, the Netherlands. Social contracts have been closed. Deals have been made in France -- and, very recently, in the Netherlands -- with the social partners, in reforming the labor markets. Progress is being made, and flexibility and securities have to be rebalanced to allow for new opportunities for young people to join the workforce.

At the same time, several euro area countries have made an impressive start with removing barriers to facilitate the ease of doing business. These range from lifting legal and financial requirements for new companies in Greece, such as opening up professions and markets in Italy. These measures make it more easy for newcomers to enter the market. They promote competition, and will result in job creation.

Finally, innovation and enterprise benefits from trade and investment. These have been the cornerstones of European integration over the last 50 years. The transatlantic trade and investment partnership between the U.S. and Europe has similar great potential.

The European growth agenda should remain focused in the years to come on balancing budgets in a sensible way, strengthening our financial system, and keeping up the structural reforms necessary in all the countries.

Ladies and gentlemen, we have shown our commitment to build a healthy and thriving economic and monetary union. To paraphrase Winston Churchill, a pessimist sees the difficult in every opportunity, and an optimist sees the opportunity in every difficulty.

We've taken the advantage of the opportunity; instead of just mending holes, we've improved the frameworks of Europe and the foundations of our economies in a structured and fundamental way, and we'll continue to do so.

Thank you.

MR. DERVIS: Well, we haven't been mic'd yet, but it's coming. So, we'll have the mics. I'm on, right?

All right. Well, thank you all for joining us for this message, and I must say, I share the view of our audience. It was a very forceful message, coordinated message, and it was a message of hope and, also, of action.

But, clearly, the issues are quite difficult. We're going to try to draw in the audience, but before we do that, let me ask one or two questions to start the discussion, and, you know, whoever wants to step in and answer -- I think we don't have a particular order.

But one of the questions that arises when you look at the balances and, you know, the macroeconomic picture -- we see that the Southern Europe crisis countries and Ireland, also, have virtually eliminated their current account deficits, which were quite large -- in the case of Spain, huge.

But, at the same time, in the North, current account surpluses are very large. And if one adds up the Northern eurozone -- or if even one adds some of the Scandinavian countries that are not in the eurozone, one arrives at very large numbers -- you know, in the area of $500 billion surplus, which, for the world economy -- China, the highest it has ever reached, in 2008, was $411 billion surplus. And the whole world was complaining about China at that time.

So, it seems to me, you know, as a macroeconomist, that there is a kind of imbalance in the way that the adjustment is taking place, in the sense that the deficit countries and the crisis countries are, indeed, tightening their belts very, very strongly.

But the countries in the North, who have quite a bit of space -- and, you know, the IMF, of course, expresses the same view as I'm expressing in a gentle way, as an international organization -- but, I mean, who would have thought that the IMF would be qualified as a gentle organization 10 years ago?

But anyway --

SPEAKER: (off mic)

MR. DERVIS: That's right. So, any word on that -- how you view this, you know, I think, would be an interesting question.

And maybe a second issue that is more institutional -- when we talk of Europe and the eurozone, you talk of the European Bank, which is, you know, the EIB is the bank of Europe, and it, indeed, is a really very strong institution that is much underappreciated, in a way, throughout the world.

But will there be a Europe with countries with the euro, and another part of Europe with countries without the euro, in a more permanent sense? Or do you see, in the end, you know, the euro is the currency of the European Union? The U.K. is obviously a difficult special case, but where is this going? Will there be a large Europe, with countries in it which have the euro and some who don't? Or, in the end, will everybody have the euro?

I mean, you know, I think it's another interesting question to start the debate.

MR. REHN: You open up very attractive avenues, which would lead to a response being the last 45 minutes of this discussion. But I'll try to be very concise, and I'll take up the first issue, which is the rebalancing of the eurozone, and what can we do to coordinate the policies?

The Commission's consistent advice has been that it's important that both the deficit countries overall means Southern Europe, plus Ireland -- the deficit countries do their job, and improve their competitiveness.

MR. DERVIS: And France is a deficit country, also.

MR. REHN: France is a deficit country, indeed, as well. While it is important that the surplus countries do their part, and try to provide economic stimulus to the exercise rebalancing process that is going on in Europe -- of course, the centers, apart from the deficit countries, who are now doing their job, as we all, in fact, testified -- but this issue centers around Germany and its policies.

And here, the glass is -- depending on how you look at it, it's either half-full or half-empty.

In other words, in Germany, fiscal stance is (inaudible) for the moment, while rate increases over last year amount to around four to five percent increases in the latest round, which is in line with the productivity development, as we have, for instance, recommended to Germany.

So, in Germany, you'll see rate increases, say, around four percent, while in Southern Europe, you'll see zero increases of (inaudible). So, this is helping the rebalancing exercise.

Moreover, it's important that Germany undertakes such kind of structural reforms; that will help to strengthen domestic demand, which has been quite strong already, and has been, on its part, carrying the eurozone further.

In fact, if you look at the domestic (inaudible) quite strong next to the resilient labor market -- employment has increased. And, as I said, in the last two rounds, we have seen increases in rates in Germany.

And we have also recommended, for instance, the increase of participation of women in the labor force -- which is a handicap in Germany, where the participation rate of women in the labor force is clearly below the equivalent level of equally developed countries, such as the Northern countries.

On the other hand -- and I can finish here -- in fact, we also have to realize that the fiscal stimulus in Germany, for instance, would not necessarily automatically help Southern Europe, because the new member states over

Central and Eastern Europe are much more integrated to the supply chain of Germany. They would benefit from that. The core countries in Northern and Central Europe would benefit from that in the short term, while, in fact, in Southern Europe, the impact would be relatively limited.

And one final point -- the politics of this (inaudible), and I will be crucified, but I still say it. Adjustment is obligatory for deficit countries, but it is voluntary for the surplus countries.

And that's the dilemma of inter-European policy coordination.

MR. DERVIS: That's absolutely true, although he said it as a bad thing. I mean, he wished it was; right?

MR. REHN: That's because he was in a deficit country in 1941 and '44 (inaudible).

MR. DERVIS: That's right. Does anybody want to add something?

MR. REGLING: I can try to answer your second question.

MR. DERVIS: Okay. Well, maybe on the first, or --

MR. REGLING: The first one, yeah. I think a lot of issues in Europe are being approached along the north/south divide, and I'm always struck by that, in a sense that many of the biggest issues that we're dealing with right now have to be dealt with in all the member states.

Structural reforms in terms of labor market, for example, are top of the agenda in my country. Housing markets are, from the North to South, in different countries in the eurozone, an issue to be dealt with. Banking sector -- almost all the countries are, in some way or another, involved in strengthening a bank, and dealing with that.

So, that'd be my first point. Some of the main issues that we're dealing with right now are not North or South; are all through the eurozone.

Second issue -- the largest growth potential, as you know, is outside the eurozone. So, key issue is increasing competitiveness for all of the eurozone countries, in order to be there, where the growth is at the moment, in order to be able to reach those markets.

So, you know, let's not look at the eurozone as a closed system. It has to come from the North to go to the South. The real economic opportunities are, at the moment, in other parts of the world. If we want to catch onto that, we should focus on that, and, all of us, increase our competitiveness.

MR. ASMUSSEN: Thank you. Just one -- full-on, before we turn to the euro question -- I mean, on the competitiveness, the wage adjustment is helpful, I think, and, you know, it's tough, of course, on the South. But, as you said, there is a differential adjustment taking place. It's necessary, and, you know, whether it would be if, instead of four, the German wage increased by seven; we can debate.

But there is also the cost of capital, which seems to make it another factor of difficulty.

Today, a German firm, I think -- or a Dutch firm -- can borrow pretty long-term money, around, what -- 1.5, 2 percent, or something like that. A Spanish firm will have trouble borrowing at 6.5 or 7.

And so while the Spanish firm is gaining some advantage through the wage cost, you know, vis-à-vis the German firm, let's say -- at the same time, it is being penalized very heavily by the interest cost it bears. And, in fact, many, very successful firms in the South -- you know, the ones who are not successful are in big trouble -- but even firms that are quite successful, have good technology, good management, face this very, very high capital cost, because they have, in some sense, the wrong address. And that makes the whole adjustment more difficult.

MR. HOYER: Europe is suffering from a (inaudible) fragmentation for the moment. As you describe it, I think this is one of the major obstacles of returning to sustained recovery, especially in Southern Europe.

And that's why we have to complete the financial repair in Europe, as soon as possible, and as effectively as possible.

There's one difference between the United States and Europe -- is that, in the U.S., the repair of the financial sector was done broadly, by and large, around 2008, 2009, 2010, and the U.S. was able to return to reasonable recovery after that -- while in Europe, we still need to finish this work of financial repair.

In addition to that, I think both the ECB and the EIB are doing very valuable work in order to support lending to SMEs and to the economy in general, but we have, for the moment, a serious problem in this regard, and we have to do more in order to tackle this modern liquidity trap.

I would say that the liquidity trap in today's Europe is essentially a financing trap of households and small to medium-sized enterprises.

MR. DERVIS: Thank you. Can you turn to the euro, and maybe also add something a little more on the resolution? Because you said the fund would be financed by contributions from the financial sector, and I think in most, you know, deposit insurance settings, that's always the starting point.

But I guess the experience, unfortunately, around the world is that when the real difficulty hits, that it's systemic, rather than a single bank. You know, it's never enough to have the funds that you gathered from the industry; you really need to have the backstop of the sovereign behind it to make it credible.

And so maybe you can also add -- but I would be fascinated to also hear your view on the future of the euro, vis-à-vis European Union.

MR. HOYER: Okay, I'll try. Just to add to the North/South label, and people who use these terms -- and I think Jeroen is totally right; there's some who always shift Ireland on the map, so this doesn't really work.

(inaudible) voted the Treaty of the European Union. The euro is the currency of the E.U., and I'm deeply convinced that, at the core of the future, European integration will be the euro area, because this is a group of countries that are willing and able -- and one needs both -- to integrate further, much further, in a shared serenity that then tends to sustain the stability needs of the currency area.

I think what is important -- that the euro area is not a closed job, and we have currently three types of groups of countries in Europe. There are the 17 countries who are members of the euro area, and they will stay member of the euro area.

At the other extreme, there are two countries who have chosen a completely different avenue. They have a permanent opt-out from the euro area. That's the U.K. and Denmark. They are more than welcome to join, but that was their wish (inaudible).

And in between, you have a group of countries -- this is so-called the pre-ins. These are the countries -- when they would prefer the unchanged convergence criteria in a sustainable manner; then they can join the euro area.

That is important -- that we have a core of the European integration, which is the euro area. And, for the first time with ESM, the euro area has an institution of its own -- because even the ECB, we are formally an institution of the 27.

So, the euro area will move ahead, but we are open to countries who are able to join, and who are willing to join in this European Project.

When it comes to the resolution, I think what is first needed -- and this is more Olli's or (inaudible) business -- we need a framework on how we do this in Europe -- in a way that is similar to the U.S. -- that we do not put the European financial market at a competitive disadvantage. This was the packing order Jeroen was referring to.

But, of course, even if one has this framework on how to deal with the banks that need to be resolved, one needs money to do this. And I think it's key that we have as the first, very limited project, where we have the joint fiscal capacity in Europe. We have a joint resolution fund, and the idea is deep -- that this should be financed by levies from the bank industry; not from the taxpayers.

This, of course, has, at the beginning, a question mark, because you need to fill up this fund over time. I think this can be done over time, in a sufficient way.

But what do you do, let's say, if in year two, you need a sizable amount of money? We have to discuss how to do this. It could be an option. It could be that one uses the ECM, which is existing as the backstop here, because it's clear it must be credible right from the beginning to work.

But the waiting for the Commission proposal on this -- it was set to come out this summer, because, as I said, we need available the instruments, the European banking supervision, and the resolution of (inaudible), plus the fund at the same time, because if you don't have, the supervisor cannot buy it. if you cannot buy it down -- a bank, cross-border, within the common market -- in a way in order not to damage the overall financial system, then the supervisor cannot buy it.

MR. DERVIS: Thank you very much. One last question to Werner, really: Can you tell us a little bit more about the blending instruments that are available? And, you know, can they, to some degree, help in this problem we just mentioned of capital costs being very high -- particularly for the firms in troubled countries, but, generally, even in non-crisis countries from medium-sized enterprises.

I think the idea is doing a lot, and it might useful -- I mean, not too long, of course -- but for the audience to see how you're working with the Commission to support employment -- and maybe even youth employment.

MR. HOYER: Well, when this bank was founded in the late '50s, nobody would have thought that this long-term lender would go into financing of SMEs, but the need is there nowadays, so ¼ of our business is now SME financing, and it's not a crowding-out exercise, and wherever the private banks, and public banks, and the member states can do it, they are invited to do it.

But that's not the case in many parts of the Union, and the reason for that is, in some cases, that the local banks with which we need to cooperate would not be eligible for financing. So, what is needed is a normative way and creative way of risk-sharing. And that's exactly what the Bank and the European Commission together have developed.

So, we can use funds of the European Union, administered by the

European Commission, in order to, let's say, enable banks in the members states to participate in the co-financing of SMEs. And that is taking place on a very large scale.

I mean, it would be a little bit overambitious, maybe, to say that it could be expended. But at least the basic pattern is there. The basic idea is risk-sharing, and the entire idea came up, and it was further developed in the context of the present financial perspective of the European Union.

And we are now going into the next seven-year period of medium-term financing of the Union, and, in this context, this issue is going to play a role again, definitely, because SMEs are the backbone of European industry and economy, practically in all member states.

So, the very difficult situation, which goes back to the question of fragmentation of the capital markets needs to be addressed; there is no question about that.

MR. DERVIS: Thank you very much. We'll turn to the audience now. I'm going to start with (inaudible), who, for quite a few years, was the head of the really premiere European think tank, Rugle, in Brussels.

And in the meantime, you get ready to ask your question, but I will, if it's okay with you, take two, three questions as a group, and then turn back to the -- yes, Jean? Thank you for being here.

SPEAKER: My first question, perhaps, would be about something you hardly mentioned, which is the rise of the political risk in Europe. I think the first years of the crisis, it was very much -- risk was markets, you know, threatening the stability of the euro area. Now it's much more, I think, the domestic political risk.

And let me -- because if I don't say, someone will say it -- it's quite funny to see five Northern Europeans explaining that the South does not exist; that the North/South divide is an illusion.

I think if someone from the South were on the panel, he or she would say, perhaps, the South has problems that have to be taken into account -- if only the level of employment.

I have a second question, more technical, on this issue of the SMEs. It's really important, you know, to bring down these differences, of course, of capital. Is it enough to have a special scheme, or should the problem be really tackled at the root -- something that ECB cannot do by its own, because it's a fiscal issue?

But when the bank in Southern Europe has to report credit risk immediately to the ECB, the ECB has to factor in the risk, and, therefore, the incentive for the banks to lend to SMEs is not enough. That's, perhaps, something that should be addressed more at the root, by, you know, making sure that the ECB can report on better conditions -- which would mean that someone else would have to share the fiscal risk.

MR. DERVIS: Thank you, Jean. I mean, you know, if Turkey was part of the European Union, then at least there would be somebody from the South here.

All right. Doug?

MR. ELLIOTT: Doug Elliott, from Brookings. I was struck by the very little mention -- if it, in fact, did come at all -- of the deposit guarantee systems. I'm quite concerned that this keeps getting pushed out further, and I would think after what happened with Cyprus, if nothing else, there would be a realization of how important it is that people in weak countries realize that they will have deposit guarantees that are protected, really, by a larger organization -- by something backed by the eurozone.

MR. DERVIS: Doug -- the other Doug. Oh, there are all these Dougs. You know, is everybody's name Doug, or what? All right.

SPEAKER: (inaudible) from Johns Hopkins University, and I have a question -- maybe it's more directed to Mr. Dijsselbloem -- because I sensed, like, some optimism in this panel, which I'm glad to see, but you mentioned, also, the deals struck with the social partners in the Netherlands, and I'm not too sure if I can see that as an element to contribute to this optimism.

And then I'll explain why -- because it feels like there's sort of a classical prisoner's dilemma set up here, where there is sort of a timeframe in which this deal will work -- or has time to prove its worth -- but if it's not working as it was supposed to do, then the proposed budget cuts that were now more or less postponed with this deal will still go into effect.

So, what at least I see in this is that everyone steps up their game as part of this deal, then it might work. but if there's some people who don't do it, which, in this prisoner's dilemma, is very likely to happen, then people who do take the risk, and who do want to make this adjustment actually will suffer more than they will gain.

So, I'm wondering, can you see this in this more positive light?

Thank you.

MR. DERVIS: Because I promised Doug (inaudible). All right.

SPEAKER: My name actually is Doug, so all right.

I was struck. I mean, I think everybody agrees the banking union is obviously the first step in a very important set of steps that lead, ultimately, to political union.

And I think Jorg Asmussen mentioned specifically, there was a necessary precondition that there's confidence in the asset quality of the banks, and their balance sheets have an integrity that everybody can actually progress from there.

My question is, how do you get there? Because what we've had is a series of stress-test exercises that have not necessarily been greeted with enormous confidence-building response. And part of that, I think, is because the EBA is caught in an awkward situation. It is supervising, but does not have the ability to actually seek out and assess asset quality itself.

So, let's agree that it's a necessary step, but my question is, how do we get from where we are now to where we need to be?

MR. DERVIS: Okay. All right. We'll turn back to the panel now, and, I mean, maybe each -- everyone will take a quick -- if you want -- we'll start with (inaudible) you ended, so now we reverse the order.

MR. HOYER: Right. Let me just address a couple of the questions.

The first one was about the political risks, and I think that is a main issue. And, again, both in North and South -- and East and West -- within the eurozone, there is a strong political debate going on about the sense of what we're doing. The debate is different in the South of Europe, I'll give you that. It's different, but it's also very strong.

In Germany, in the German Parliament today, about the Cyprus deal, a tough debate. Are we doing the right things? I think crucial is, of course, that we show results -- that our strategy pays off, in terms of economic recovery and jobs, in a country where the youth unemployment is now rising up to 55 percent. Where is the perspective for young people?

So, we have to have results within this year; that's obvious.

Second is that I think you also have to -- we've been so busy, probably, dealing with the crisis that we've not really involved a lot of people -- the public at large -- at what we're doing, why we're doing this, why it's so crucial to work together, along the lines of the strategy. Why is it so crucial to push forward the structural reforms?

People are just experiencing the structural reforms, in terms of, "I'm losing social rights." But we have to explain to them that in order for young people to be able to participate, also, in labor markets that we have to rebalance, maybe, in some countries the securities and the flexibilities. In order to create new jobs and new opportunities for companies, we have to become more competitiveness for an international perspective.

But we have to talk more. We've been so busy dealing with the crisis -- I mean, these guys have been doing it longer than I have, but my analysis would be, we've been so busy dealing with the crisis -- which had to be done, directly and immediately. Now we have to spend more time, maybe, and attention to talking to our electorate, and explaining what we're doing, and why it's the right way forward. I think that's definitely necessary.

The second question was very Dutch. It was about the social dialogue in the Netherlands, and I'll probably have to explain to you all this, but what we've done -- our government wants to push forward a massive labor market reform, and this will also help in the budget. It will help in the budget, in the longer term, for about five billion, which, you now, we're a small country, so bear with me.

Of course, doing that -- and doing that, working with the unions and the employers -- makes it so much easier, makes it so much more effective to realize these reforms in the labor market that we've chosen to negotiate with the unions and the employers. And we've been successful; we've closed the deal.

But there is, of course, the other -- so we're going to push these labor market reforms forward. We're going to take a little more time. That was their main demand -- take more time. But we're going to do it, and we're going to put the legislation for this labor market reform into Parliament before the end of the year. And the implementation will take a little longer. That's fine. That's fine with me.

Then there's the budget. Yes, at the same time, we also have to work on our budget. This year, we will not meet the budgetary targets, and I'm in big trouble with Commissioner Rehn.

But I've promised him that we will work on all the structural reforms needed. I just meant the labor market. And I've promised him that we will get back on track, in terms of budget discipline in 2014.

Now I'm not sure how much I will have to do extra, in terms of the budget measures, but we will do them, and we'll make the final decision on that in August.

And we will talk to the social partners again, but the budget is, ultimately, the responsibility for us. The government and our social partners have recognized that. So, they've accepted that if we take extra measures at the end of the year, to also address the budgetary problems -- they will accept those, and that will not blow up the deal that we have with them; don't worry.

MR. DERVIS: All right. (inaudible) particularly on the --

MR. HOYER: Very briefly, because I already addressed the issue.

I mean, the differences in the interest rates that a company in Northern Italy, south of the Austrian border, needs to pay for the same purpose for which the Austrian competitor north of the border pays less interest rates -- is, in a certain way, reflecting a risk perception. And if that is the case, it has to do with the banking system in the two countries; then the political; then this, again, must be reflected in the position of those international banks who support these two companies or sets of companies in little countries.

If there is a political world to resolve that problem and overcoming the negative consequences over the fragmentations of the market, then there must be somebody who takes care of the risk differential. And that means, very clearly, that I do not believe that one should go to the bank where one says, "Well, the bankers should avoid taking risks."

Banking has something to do with risk-taking, but, at the same time, with risk management. And for that risk management, you need some mechanism that makes sure that your own position as a bank does not suffer from that activity.

So, it is a very complicated process that requires a political will.

MR. DERVIS: Thank you. Maybe something on Doug's question, on the banks --

MR. DIJSSELBLOEM: I think I need to say something in response to Jean, because he said what he thought he had to say. I thought it was a big cheap.

If my neighbor to the right (inaudible), I'm very happy to see that, but if his President or Vice President were here, there would be an Italian or Portuguese. And I think you accept that they have some impact at the ECB.

The Director-General of Olli is an Italian. I have two deputies; one is French, and one is Spanish, so -- and is the envy of all good Europeans.

We are also not claiming that Southern Europe has no problems. You implied that. I think that's just wrong. We are fully aware. There's a lot of solidarity coming from European partners to these countries. My institutions alone have disbursed in two years 185 billion euro -- in two years alone, at an average interest rate of 1.2 percent. That's a lot of solidarity.

These countries go through a very painful adjustment. Nobody here's denying that, although we are all Northern Europeans. But I don't like this North/South (inaudible) before. Latvia was the first country to take very tough adjustment measures. That's pretty Northern European.

So, I think we should be a bit more rational here. I'm a bit surprising, coming from (inaudible 01:24:34), to hear this view.

MR. DERVIS: Jorg?

MR. ASMUSSEN: Okay. I take up the SME lending and the asset quality (inaudible).

I mean, the lending to SMEs is a problem in parts of the euro area. And you can ask the question, why do banks not lend? And there are three reasons.

First, it's a lack of liquidity. Yes, via the ECB can help, and I think we have done this quite a lot.

Second, it's a lack of capital. There's nothing we can do. It's for governments or investment banks to do this.

And third, it's the high-risk aversion, because they have an increasing number of non-performing loans, or things like that. That is also outside our agreement.

So, I think one has to be clear that the ECB is not an all-partners-welcome for any kind of economic problem that arises. So, if there's a country that has no government because the voters are in deep mistrust of their own political system, there's nothing we can do. If there's a country that is losing export marketing shares because they have lost competitiveness, because they have avoided doing growth-enhancing structural reforms for years, there's nothing we can do.

So, we will do our part, but what now (inaudible) had is not with the ECB. We are not an all-purpose weapon for any kind of economic problem that arises.

To the asset quality review, I just can stress -- I think it's key to have this before the single supervisory mechanism start -- to have a clear picture where we stand.

You had raised the concrete question, who should do this? Let me first take a defense of the EBA. They were criticized quite a lot, but one has to confess they had limited competences, and this was a delivery choice, to give them only limited competences. And second, they had limited resources in the same line.

So, one should be careful what they could do and not do. I mean, if you do this before the SSM starts, I think it has to be a joint exercise to get all the know-how together that is involving the EBA, the ECB, the national supervisors, to get this from the clearly European perspective -- equal rules for everyone -- so you know that sometimes, national supervisors have the tendency to protect their domestic system, or think this should be clearly avoided, and this is one of the big advantages of a European banking supervisor -- that these problems are a conflict of interest that you have been domestic banks or domestic supervisors is very likely to disappear.

But it's a difficult task, and I think it's really key to get this done.

MR. DERVIS: Thank you. Anything, or shall we -- do you want to add anything, Olli?

MR. REHN: Can I pick up the issue of physical consolidation? Because that was referred to.

Jeroen, who is working on this very intensively for the moment -- Jean and some others who refer to this or indirectly.

And, in fact, we got some policy advice from Christine Lagarde and Jack Lew today, as regards the pace of consolidation. They both advised Europe to slow down the pace of fiscal consolidation.

Now I can tell you a secret: We have already slowed down the pace of fiscal consolidation in Europe.

Last year, in the eurozone, we had around 1.5 percent of GDP structural, physical, in terms of fiscal consolidation.

This year, around ¾ of a percent -- so from 1.5 to ¾. This is an example of the focus on the structural sustainability of public finances over the medium term. And these decisions that impact this year have been done mostly last year, in 2012, and it shows that Europe has already practiced what Christine and Jack Lew are preaching in the course of last year.

I think it's right, because we now can do it. We can afford to somewhat slow down the pace of fiscal consolidation, because of the shorter mean, but on economic growth, it can be mitigated.

Why? So, mainly for two reasons. First, we were able to restore credibility of our fiscal policies in 2010/2011, when the member states took decisive action. And secondly, because the ECB has played a very important role in terms of short-term stabilization, especially since the summer of 2012.

So, for these two reasons, we can afford to have a somewhat slower and smoother pace of fiscal consolidation (inaudible).

And can I say about this North/South?

MR. DERVIS: Yep, sure.

MR. REHN: Because I agree that it's a very artificial approach, and we have other kind of devices in the country. I can tell you an example.

In the country I know best, which is in the Northeastern corner of the European Union -- Finland -- we have a saying -- I come from Eastern Finland. So, we have a saying, that even a funeral in Eastern Finland is a more joyful event than a wedding in Western Finland.

So, in the country I know best, the Western thinks that they are the real Scandinavians, while us Eastern Finns, we are Mediterraneans. I'm mentally a Mediterranean.

MR. HOYER: So, we have to check on your current account balances.

MR. DERVIS: Okay, we promised -- I know we would love to go on, but we promised our guests we would finish at six. We have six minutes. So, if you can just very telegraphically, in, like, four or five words -- you know, I'll take two or three more questions -- the lady there, yes -- because -- but really very short.

SPEAKER: Very. Macedonian TV (inaudible).

Commissioner Rehn, how do you explain the fact that member states, such as Greece and Cyprus, are in economic crisis? On the other hand, like, Turkey and Macedonia candidate countries have economic growth?

MR. DERVIS: Okay. Yes, you -- the young -- and I'll take one more, and that's it -- real quick.

SPEAKER: Thank you very much -- I'm an Assistant Professor for (inaudible).

I do kind of very quickly want to come in defense of Jean (inaudible), because they -- on the North/South issue, from a political legitimacy point of view, if you look at the latest euro barometer results, they're radically different.

You look at how the E.U. is being perceived in Germany, and Finland, and the Netherlands -- even in Belgium, where I'm from -- it's much more a positive view than it is in the South.

And also, if you look at youth unemployment -- in Germany, it's going down. It's going up -- these are dramatic heights.

So, I do think political elites in the E.U. have an issue here. There is a real divide, and denying this by saying, "Well, there's housing problems everywhere," I don't think is helpful.

So, like, can you just address the political legitimacy element of the E.U.?

Thank you.

MR. DERVIS: Enough, enough. Yes, the lady all the way in the back, with the black vest and the red dress -- that's right.

MS. GREENE: Thank you. Hi. I'm Megan Greene, Chief Economist at Maverick Intelligence, and, also, a Senior Fellow at the Atlantic Council.

And I was just wondering -- Mr. Vaidman recently told *the Wall Street Journal* that a banking union would involve a single supervisory mechanism in a bank resolution scheme, but he didn't talk about an E.U.-wide bank deposit guarantee.

And so I'm wondering if, in your view, that's still necessary for an effective banking union.

MR. DERVIS: Okay. I'm very, very sorry to close the question, because, you know, we promised our guests, who are very, very -- you know, who have so many things to do in the next two or three days here -- so very quickly, also, on our side here.

MR. DIJSSELBLOEM: Can I just -- I think I already said that I think that the political elite, as you call it, in every country, will have to deal with the debate on Europe. And the debate is going on in every country, and it has a different tone of voice.

But in my counter, the euro skepticism is going sky-high, also, so that's a challenge for me to address that. The debate is different, of course, but the debate is critical towards Europe, and it's critical towards our strategy.

For example, on the fiscal strategy, even in my country, which has a very austerity tradition -- even in the Netherlands -- there is now a debate on this strategy, which we're now debating. So, yes, we're dealing with that; absolutely.

There was previously already a question about the deposit guarantee system, and now there's another one. That is part of the banking union, but before we have all the building blocks of the banking union in place, we have to make absolutely sure that the deposit guarantee system is already there, and that the European countries have all said and promised their depositors that they will guarantee the first 100,000s -- the unsure deposits. The system is there.

We're now working on a further harmonization of that system, and, even further down the line, we'll work towards a European deposit guarantee system. But it's not something we have to wait for. There is already a deposit guarantee system in place, and functioning in the European Union.

MR. DERVIS: Thank you. Werner, anything?

MR. HOYER: No, I'm fine.

MR. DERVIS: (inaudible) Klaus.

MR. REGLING: Maybe just one more word on the North/South. Nobody was denying here on the podium that there are serious problems. These are the countries in crisis, and all euro area countries are demonstrating solidarity, and they're providing financing.

It goes to these countries. They have to do the adjustment. That's never easy. Look at all the IMF programs we have seen in the last 50 years. It was never popular in any country.

But if Turkey, Brazil, Indonesia, Korea had not done their IMF programs, some, at one point in time, during the last 20, 30 years -- Turkey, 15, 13 years ago -- they would not be the star performers of the world economy today. It's very painful at the time. It's not popular.

People demonstrating against the IMF -- in the context of the euro area, it's not that surprising that they lose confidence in the euro. I'm not surprised by that.

So, I only wanted to say earlier that we are aware of this; we are not denying these problems.

MR. DERVIS: Jorg, any last word? Olli?

MR. REHN: (inaudible) what Joroen and Klaus said about the North/South issue. It's a serious issue, and I can tell you that I felt it yesterday. I came straight from the plenary session of the European Parliament that discussed Cyprus, and it was quite some political bombardment against (inaudible) and, also, for some reason, against the European Commission.

I (inaudible) of the Finnish Parliament, which debated the Cyprus package exactly at the same time, and I'm going to say that the debates were almost diametrically opposed.

It's a serious issue, and that's why we need bridge-building in Europe, between the stability culture and between solidarity culture, and we have to include both of them in our work.

MR. REGLING: Very final word, Kemal?

On the former Yugoslav Republic of Macedonia and on Turkey, in relation to some other countries, I can only say that it's good news that your countries are doing, in relative terms, very well for the moment -- and Turkey not least thanks to the reforms that were started and pursued during the time of

Kemal Dervis, the Minister of Finance.

The past 12 years in the economic development of Turkey have been formidable, and you started the work, and then Turkey also, thanks to its European perspective, was able to solidify its economic progress, and I trust that, with wise economic policies, the country can do very well in the future.

MR. DERVIS: Well, thank you. I want to testify that the European perspective was extremely important for Turkey at that time, and I think Europe remains -- and Strobe, you know, our President said it at the beginning: Europe has achieved a huge amount over the last 50, 60 years, and the crisis -- and we all very much hope that these difficulties will be overcome.

I think, as you said, you know, opportunities come from crisis and from difficulties very often.

I'm very grateful that we really got a strong European perspective -- much-needed at this point in time. I really hope 2013 will be the turning point. We're towards the end. We will see that the recovery is really underway.

And I want to thank every one of our guests here for the work they're doing, first of all -- the very difficult work at a critical time -- and I do want to thank them, also, for coming to us, and sharing their views, of course -- coming to Brookings.

There is going to be a reception hosted by the EIB, by Werner, across the corridor here. And may I just ask you to remain seated so that our guests can leave? I know one or two of them have a very urgent appointment elsewhere. And then you're all invited to the reception.

Thank you.

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