

09.15 - 11.00

Plenary Session II

Rebuilding confidence in financial markets: financial regulations, budgetary discipline, monetary stability

(Working Group I)

(Ballrooms II-III) (DE, EN, FR, ES, HU)

Danuta Hübner MEP. She reminds that the crisis was not anticipated. We have to know how to avoid new crisis and how to respond better to new crisis. she mentioned the three main areas of reform/response:

- Financial sector regulation and supervision
- Fiscal consolidation
- Monetary Policy

She underlined the importance of the macroeconomic framework., and she insisted on the need of introducing smart structural reform policies.

Ingrida Šimonytė, Lithuanian Minister of Finance. She states that the Baltic countries suffered the crisis most than any other EU country, "double digit recession" , and it is "our own fault".

On 2008 the Lithuanian government opted for a policy different than that applied in most of the countries at that moment; spending cuts were combined with tax increases amounting both for a total of 12 % of GDP.

The good thing in the Baltic countries is that people still remember much worst situations than this crisis; the communism.

With this consolidation policy of public finances Lithuania manages to finance itself in the financial markets. Interest rates have already declined to pre-crisis levels. the premium risk of Lithuania has been reduced.

Fiscal rules are very important but is much more important its application.

How our economies will look like in the future? The structural reforms are much more important than the fiscal balance. Structural reforms must be a constant process. The Task Force must bring us into this.

She underlined the need of labour market reforms in Lithuania.

She considers that sanctions (on economic governance to control public deficits) must prevent bad actions. Sanctions are at the centre of the discussion, they must be credible and non discriminatory. Fiscal rules are important, but introducing a fiscal consolidation culture is even more important.

Jacques Delpla, CEO, Liberfund; Member, Prime Minister's Economic Advisory Committee, France.

We should "really privatise banks and nationalise regulators". We should let banks bankrupt when they have lost more than they can afford, and we should make regulators really

independent from bankers. Theoretically banks are regulated but in reality the regulation has been done by the own banks.

He considers that banking sector is the most regulated sector, but it did not work. It has been a crisis of bad regulation.

We must remove moral hazard; no bail outs. Banks take too much risk because at the end they know they will be bail out. This is a major problem. We should remove all implicit guarantees to banks. Governments, de facto, subsidize banks. Bank deposits should be taxed. A new framework for bankrupt is essential. Proper incentives are necessary; bonuses and dividends should be eliminated during crisis.

Stability and Growth Pact is not working because it affects the fiscal sovereignty. The possibility of removing voting rights of those with excessive deficit should be explored.

Steven Hill, *former Director of the Political Reform Program, New America Foundation.*

Last 20 years economist have been wrong . In the present crisis the housing bubbles were not detected. Uncertainty is the key word now.

The massive stimulus programmes should have been implemented on a country by country basis. "One size does not fit all". USA has much less automatic stabilizers than EU, therefore more spending programmes are needed there.

We need to introduce the right incentives we must eliminate gambling from our systems.

We need strong leaderships.

We must learn to do more with less, more efficiency and productivity is necessary. We must recognise that "China, India, and Brazil are already at the table".

We must be aware that media are unreliable; they did not anticipate the crisis either. Growth is the only thing media cares about, therefore China is the best country in the world for media.

He thinks that the 'European brand' is not well publicised in the USA. He thinks that European leaders should visit other places in the USA than Washington.

Olivier Lacoste, *Director of Studies, Confrontation Europe*

He considers that the supervisory package is not enough. The idea behind the introduction of the European Systemic Risk Board (ESRB) is a good one. However the competence and powers given to the ESRB are not enough to fulfil his tasks.

He is in favour of taxing banks and to directly allocate its revenues to an EU Fund to respond to future crisis. It will not be done, nor even the Barmier proposal (national funds coordinated at EU level).

He defends the idea of introducing a Financial Transaction Tax (FTT). FTT should be introduced at EU level (if at global level is not possible). FTT revenue should be allocated to the EU budget.

He considers that reforms in the elaboration Accounting Standards, which has been given to a private international organisation like the International Accounting Standards Board, should be introduced. He thinks that it is necessary to improve the governance of the IASB .He mentions the procyclical effect of some accounting rules like 'fair value' and 'mark to market'.

He considers that monetary stability do not imply financial stability. He thinks that should the ESRB already existed it would have warned about the housing bubble in Spain.

Ross Walker, *UK Economist at Royal Bank of Scotland, EIN Working Group* .

Uncertainty is the new norm. The distinction between deficit and debt is very important. What is the purpose of the financial system? To allocate resources. Housing bubbles are extremely negative because they provoke a misallocation of resources. Bad incentives structures are the responsible of the lack of alert of managers and bankers, they provoke mispricing of risks.

jb/21.09.2010