Round Table - Financial and economic elements in post crisis European Union recovery

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Guest Speaker:
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Panellists:
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- Last five years = economic crisis: US housing bubble, Lehman, triggering the sovereign debt crisis in Europe and leading to the Greek crisis.
- EU at a critical juncture. EU crisis not overcome. Still high debt in some member states, coupled with volatile world economy and political instability in the EU's neighbourhood. Two change drivers having impact on EU as well: globalization and technological development. Political stability key for economic recovery.
- Four roles of government: national budget manager, policy formulator, provider of capital and developer/promoter. Recovery: all about confidence. Governments must project consistency and predictability based on a long-term economic plan with an emphasis on competitiveness.
- Need a triangle to overcome crisis: economic growth, good governance and fiscal consolidation. Objective: strengthening the middle class. No society can achieve level of prosperity and stability without strong middle class. All three sides of the triangle must be developed together. Long-term economic growth only possible with counter-cyclical economic and fiscal policies possible also to reduce debt. Important aspect of recovery: innovation.
- EU macro-economic conditions are very favorable at the moment: low oil prices, low Euro exchange and interest rates. But: disposable income for households has declined despite higher growth, largely due to higher taxes. Challenge of digitalization and demography: EU will be confronted with serious labor shortage soon. Europe's neighborhood directly affected by armed conflict.
- EU short-term economic outlook is fragile (Asian market uncertainty, global instability, Greece) despite positive tailwinds (oil, weak Euro). QE is efficient, but is it enough? Risk has shifted to downside especially since August with refugee inflows and VW scandal, possible impact of China hard landing, US situation.
- Medium-term outlook is mediocre. 2015 growth might come out as predicted, but there is a question mark about 2016. Pre-crisis structural problems persist, especially weak productivity, rigid product and labor markets. Legacy of the crisis: investment gap, deleveraging public and private debt, high non-performing loans, low inflation, rising inequality, low levels of citizens' trust.
- Growth of 1% not enough to sustain social welfare systems, at least 2% required. Should QE be expanded? Yes. We must develop clear view on completing EMU. Fiscal transfer = no go, but need EU level fiscal capacity. Use MFF review to link EU budget with European Semester to increase performance & increase flexibility.
- EU lagging behind US recovery. EZ: Fiscal consolidation between 2010 and 2014 too quick, did not move in line with output growth: fiscal tightening strangling nascent economic growth, fiscal policy turned pro-cyclical instead of anti-cyclical. Fiscal consolidation important in the long-term but must be done smoothly. Fiscal consolidation especially in IRE, EL, PT mainly impacted on education, families, health spending.

- ESM negative impact due to stigma and harsh conditions. Juncker plan good but not enough need real investment instrument and real backstop for banking union as well as Eurobonds.
- Divergence Eurozone 3 possible answers: 1) internal devaluation 2) acceptance via agglomeration but might necessitate fiscal transfer 3) symmetric rebalancing via increased labor mobility, labor market convergence, coordination on minimum wage. Favorite option: big leap towards economic and fiscal union - better than continue muddling through. Breakup of Eurozone still possible. EU budget is too small to be real investment impulse, works pro-cyclical because of co-financing (S Europe cannot co-finance in crisis).
- Spanish economic recovery: ES underwent double-dip recession between 2008-2013. 2015 forecast more than 3%. Next year unemployment expected to fall below 20%. Good export performance means ES has become net lender vis-à-vis rest of the world. Spanish recipe = EU recipe: Fiscal discipline, cleaning up banking system and implementing econ reform. In addition, Spain increased exports from 22% in 2009 to 32% of GDP in 2015: also about quality of exports. Spain reallocating productivity and investment to new productive sectors, undergoing transformation to export-led economy. Challenge now: reduce inequality, increase company size to make use of economies of scale.