Fighting the crisis

Conclusions of the Monetary Panel
adopted by the Brussels Central Council (December 2008)

The Monetary Panel of ELEC, meeting in Brussels on the 7th of November 2008 to discuss the economic and financial crisis, has agreed on the following conclusion.

The subprime crisis has evolved since last year into "*the most dangerous financial crisis since the great depression of the 1930s*" according to the IMF. In addition the financial crisis is now taking its toll on the "real economy" worldwide. The eurozone has entered a recession and other EU member states already experience a serious slowdown in their growth.

Should the recession become a significant and durable one, it inevitably would have dramatic repercussions on a financial system which is already very fragile. Unless the recession is halted through energetic and rapid measures, the financial system risks to suffer heavily. Considering the importance of banks in financing the economy, this recession could then promptly turn into a depression, as severe in its consequences as in the 1930s.

The Monetary Panel has noted with satisfaction the resolution shown by the G20 Washington summit of 15 November last, on the EU leaders' impulse, to cooperate in order to stabilize the financial system and to restore economic growth. It is indeed evident that urgent action on both fields is required. The G20 has agreed "*that a broader policy response is needed based on closer macroeconomic cooperation, to restore growth, avoid negative spillovers and support emerging market economies and developing countries*", and proposed "*immediate steps to achieve these objectives, as well as to address longer-term challenges*", by using a.o. "*fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal stability*".

The Monetary Panel is of the opinion that coordinated fiscal measures need to be taken at the EU level also, since monetary policy, already much solicited, appears to be losing its effectiveness in the present context. Temporary measures that could quickly restore confidence for both businesses and consumers should be urgently adopted. The Union obviously needs more than consultation among the high authorities of the Member States. Specific action, based on Union’s law, is required.

The Panel observes with satisfaction that the informal meeting of Heads of State or Government on 7 November adopted an "*agreed language*", not only ahead of the G20 meeting held in Washington on November 15, but also with a view to the European Council of December. It asked the ECOFIN Council and the Commission to submit "*a European strategy, building on the Lisbon strategy and the Stability and Growth Pact and comprising principles for action and specific measures to cope with the economic slowdown and maintain growth and employment*".

The Monetary Panel highly values the *acquis* of the single market and competition, denounces protectionism as a noxious and illusory remedy against the crisis and, while acknowledging the need for fast action, asks Member States to refrain from the temptation of adopting unilateral measures that would give them a competitive advantage over their partners. It also recognizes the merits of budgetary discipline as embodied in the Treaty and in the Stability and Growth Pact. It observes that the latter, as amended by the 2005 reform, allows for more flexibility in times of economic slowdown than the original text did, and it calls for a maximum use of this possibility under the control of the Commission. It stresses however that such flexibility has its limits, and recalls, in particular, the "*overarching principle*" of the Pact requiring that the excess over the reference value of 3 percent of GDP for the fiscal deficit be only temporary and that the deficit remain close to the reference value, the more so for member states that are already heavily indebted.

Decisions to reduce VAT at the level of the Union will probably be difficult to reach, but recommendations addressed to Member States to consider such an option, as well a procedure for rapid and liberal authorization to take it, are required. Income tax rebates - being easier to reverse than lowering tax rates - could also be recommended to Member States as a quick way to stimulate spending. The Union should in addition make a liberal use of the possibilities given by the Treaty to grant financial assistance to its Member States, be it, for example, under economic and social cohesion policy, balance of payments support (like in the Hungary case) or through the "Community Financial Assistance", a possibility provided by Article 100 of the EC Treaty, or the creation of special fund, with significant resources. Finally, all the institutions of the Union, including the European Investment Bank, should pay special attention to the needs of SMEs, which appear especially vulnerable in the current phase of credit restrictions by the banking system.

Other actions should aim at improving the functioning of euro-denominated bond markets. As underlined by the Commission in its report on *EMU@10*, an efficient and liquid government bond market is important for better allocating resources but also in making the euro area an attractive location for investment and allowing the euro to play fully the role of an international currency. Valuable inspiration for such actions can be found in the November 2000 Report of the Giovannini group on "Co-ordinated Public Debt Issuance in the Euro Area".

Finally, the Monetary Panel of ELEC emphasizes that the euro has played a strongly stabilizing role in preventing the crisis to spread even more disastrously over the eurozone, and it has observed with satisfaction the dramatic change in attitude vis-à-vis the euro on the part of some EU countries that have not adopted it. While underlining the ever-present necessity of "sustainable convergence" for new candidates to EMU membership, it is convinced that the widening of the Euro area, far from being a handicap for the single currency, would be a positive element in the common fight against the financial and economic crises, increasing the solidarity among partners united by a single destiny.

\- - - - - - - - - -