Opening Speech - Relaunching growth in the context of the new financial regulatory framework

Ladies and gentlemen, honourable guests,

It is a pleasure standing here today before such a distinguished audience.

First of all, I would like to thank Eurofi for organising -in association with the Cyprus Presidency- this financial forum. Indeed the theme, “addressing growth and stability challenges in the context of the new financial regulatory framework”, could not be more relevant at the current time.

Lets look briefly where we stand today. We are into the fifth consecutive year of a financial and economic crisis. We are in a crisis that has affected adversely the lives of citizens across the European continent and beyond. The roots of the crisis have been well identified and repeatedly exposed. Most recently, the roots have been exposed by the Commission president in his “State of the Union 2012 address”. These are:

(i) Irresponsible practices in the financial sector;

(ii) Unsustainable public debt;

(ii) A lack of competitiveness in some Member States.

These factors were further compounded by structural problems of the financial architecture system and the Euro itself.

These factors allowed a financial crisis to evolve into an economic and sovereign debt crisis that affected particularly the euro area. The worse may or may not have passed. Definitely there is still some way out of the storm. The highly uncertain macroeconomic environment does not allow any safe guesses. Nevertheless, currently available economic indicators point to continued weak economic activity in the remainder of the year.

Now let’s look a little into the future:

Looking ahead, beyond the short term, the euro area economy is expected to recover gradually. Growth will be hampered by

(i) the necessary process of balance sheet adjustment in the financial and non-financial sectors,

(ii) the existence of high unemployment, and

(iii) an uneven global recovery,

The balance of risks surrounding the economic outlook of the euro area may well remain tilted on the downside.

However, on a more positive note, euro area Member States that receive financial aid continue to make further progress. They continue showing their strong commitment to their macroeconomic adjustment programmes. They continue important fiscal and structural reforms, in line with the agreed policy conditionality. And they continue to deliver, despite the adverse macroeconomic conditions they face. In this context, the Eurogroup as repeatedly stated will continue to stand ready to assist programme countries. This assistance will continue until recipient Member States regain market access, provided the agreed conditionality is implemented.

Ladies and gentlemen,

Having briefly described where we stand today and also how it looks ahead, I will now risk to tell you how future historians, say 50 years from now, I hope will, write about the Europeans of today.

On the policy making front, since the very beginning of the 2008 crisis, the European Union adopted bold and far-reaching decisions and initiatives to tackle this systemic crisis. Numerous measures had been adopted to fundamentally strengthen economic governance, enhance financial stability and improve the financial system's architecture.

On economic governance, the European Union had put in place

(i) the six-pack;

(ii) the Treaty on Stability, Coordination and Governance (the Fiscal Compact);

(iii) and is currently working very hard for the adoption of the Two-Pack.

These building blocks fundamentally, improved , the way economic governance was pursued at European level. They set an improved basis for policy coordination for the European Union as a whole and for the euro area in particular.

On the stabilisation front, a number of measures and actions had also been adopted. These included the ECB's Long-Term Refinancing Operations (LTRO) followed by, the Outright Monetary Transactions (OMT). In parallel, the establishment of the European Financial Stability Facility (EFSF) and of the European Stability Mechanism (ESM), as financial backstops for distressed economies in the euro area, had also been a major structural element of the European response.

The efforts undertaken to address the challenges in the financial system architecture and to further improve financial integration had also been significant.

The establishment of the three European Supervisory Authorities allowed for the further development of the so-called Single Rule Book. It also allowed for enhanced cooperation in supervisory practices. This had been further benefited from the establishment of the European Systemic Risk Board which now provides for a macroprudential perspective.

Ladies and Gentlemen. This is how I hope historians will describe the 2008-2012 European Economic Crisis. Let us know create a little bit of the history beyond September 2012.

Currently, as you are aware, there is a good number of legislations proposed by the European Commission under negotiation between the European Council and the European Parliament, such as:

a) The Credit Rating Agencies Regulation;

b) The Capital Requirements Directive and Regulation;

c) The Crisis Management & Bank Resolution Directive;

d) The Markets in Financial Instruments Directive and Regulation.

e) The Market Abuse Regulation and Directive

All these initiatives aim to remedy identified weaknesses and to render the financial system more transparent, more resilient, safer and sounder. The Cyprus Presidency works hard to conclude where possible, or advance as much as possible, these files.

Work has also been launched for a banking union. Such a union requires a single supervisor. To this effect, the European Commission has recently presented legislative proposals with a central role for the ECB for the Euro area. Currently, there are intensive discussions at various levels among the various stakeholders as to how this can best be implemented. I feel confident that despite some general reservations, all stakeholders will demonstrate the necessary political will in the forthcoming discussions to put in place timely this very crucial pillar for an integrated financial framework. This would be a prerequisite for breaking the link between sovereign debt and bank debt once and for all. This would be crucial element for ending the vicious circle between bank rescues and sovereign debt, with its detrimental effects on economic activity, on the labour market and the living standards of our fellow European citizens.

Dear Ladies and gentlemen,

I am looking forward to fruitful exchanges of views and conclusions drawn during this forum that brings together policy-makers and practitioners conclusions which will influence only positively the public debate and the ongoing efforts taking place at European level. I am also hoping that historians will look and fairly judge the work which we are now doing so that future European generations will be proud of our genuinely good intentions to create a prosperous and peaceful Europe.