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"Financial communication in a turbulent financial world"

Speech by President of the European Council Herman Van Rompuy on the occasion of the 50th anniversary of the European Federation of Financial Analyst Societies EFFAS

In a speech to financial analysts, President of the European Council Herman Van Rompuy pointed out why he is "cautiously optimistic" as regards the sovereign debt crisis. He said: "We have reached a turning point. Let me mention 3 indicators: First: the bond spreads are down for a number of countries (...) Secondly: Consumer confidence is rising. (...) Thirdly, and most recently: yesterday, investors massively backed the EFSF rescue fund, which was able to complete a bond hat-trick. The tide is clearly turning here. And this is linked to the fact that there now is a clear funding program for Greece. It is too early to say that we are in a "post-crisis period", we should remain prudent, but we are surely in calmer waters. And we should make the best use of this moment.

We live in a world of volatility, of conflicting impulses, and unfortunately also a world of declining trust. A decline of trust both between individuals and of individuals towards institutions.

During the financial crisis, people lost their confidence in banks. The Eurozone crisis affected people's trust in our currency -- not in its value but in its very existence. These are major shocks. It will take time to overcome them. Not only economically, but, in a way, also psychologically.

Communication cannot in itself bring back this confidence. In the end only results can do so. Re-establishing the stability of the financial and monetary system. That has been my own guiding principle and the objective of our summit meetings.

P R E S S

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We have seen during the crisis that, unfortunately, communication can also contribute to the volatility; when public messages are untimely, contradictory (among actors) or inconsistent (over time). It is one of the reasons why, personally, I have limited my own public statements so far and intervened only when it would help to get closer to solving the crisis...

Part of your Federation's role also contributes to building confidence. I am thinking in particular on your work on certification. In a world of volatility, more than ever, the public needs to be able to rely on well-established indicators, to be able to identify easily who will give reliable advice, who will provide value for money, who is without conflict of interests.

And these values include – I now quote from the Code of Professional Ethics from the Certified International Investment Analyst – a number of “*Fundamental Principles*”:

- *Honesty, Integrity, and Fairness,*
- *Reasonable Care and Diligence,*
- *Interests of Clients First* (and others, but these are listed first)

Last week’s resignation letter from a former Goldman Sachs employee made clear to the world at large that these values are sometimes treated... (and I now try to put it diplomatically...!)... rather as noble objectives than as guiding principles... Not as business necessity, but as moral luxury. That, obviously, is not good. This is why the professional training and certification dimension of EFFAS’ work is so essential.

Basically from the start this crisis has been to a large extent about the underestimation of risks. By professional economists. By credit-rating agencies. By banks. By surveillance agencies. By governments. In fact, by almost everybody! A lot of books have been written on risk-management. Nevertheless, a lot of unjustified risk was taken at the same time.

This is nothing new. Let's take a step back in time. In September 1929, a New York investment firm placed an advertisement to attract savings. It briefly told the history of the Mississippi Bubble -- wild speculation in the early 18th century -- and then said: "*Today, it is inexcusable to buy a 'bubble' -- inexcusable because unnecessary. For today every investor has at his disposal facilities for obtaining the facts.*" These facts would substitute the "*sound principles of investment*" for the "*hazards of speculation*", so said the ad.

The men and women who believed this and rushed in to invest their savings -- they were quickly disappointed, just one month later, by the great October 1929 stock market crash.

Obviously nobody can predict the future. But we must do what we can to avoid that History repeats itself and show a willingness to take the necessary decisions. While at the same time remaining prudent, acknowledging that there may always be surprises ahead.

In talking about the way the European Union has dealt with the crisis, I propose to distinguish two phases: first the financial and economic crisis and secondly the Eurozone crisis.

They are two separate chains of events. One started in the United States with the fall of Lehman Brothers in September 2008 (or with the subprime troubles, as of August 2007). The other started in January of 2010 in Greece, with the public financing difficulties of the Greek government. (Even if they are related of course.) On the second one, we are now turning the corner.

In my view, as Europeans, we may be proud of what we achieved. Nightmares were predicted, but the worst has been avoided. The errors of the crises of the 1930's were not repeated. We did not devalue the national currencies, as happened then. It was a-beggar-my-neighbour-policy with disastrous effects. This time we had the euro.

We did not set forth an overall deflationary budgetary policy, as was decided then. We did not allow a vast number of banks to go bankrupt, as happened then. Nor did we witness a return to national protectionism. Admittedly, there were some incidents, but their importance has been exaggerated. And as regards an issue which is of particular interest to you, the financial sector: the insufficiencies in financial oversight and banking regulation were addressed immediately and seriously.

The European Union was very active in this regard. Basle-III springs to mind, or the establishment, one year ago, of the European Systemic Risk Board. Or, closer to your trade, the ongoing Mifid-II legislation.

Now on the second series of events, partly a consequence of the first one: the sovereign debt crisis. It obviously started in Greece two years ago and has shaken the foundations of our Economic and Monetary Union. We stumbled, but we did not fall.

In the last 12 months, we lived more difficult moments within the Eurozone than I expected one year ago.... Indeed, in November and December last year, we were close to the abyss.

Today we have reached a turning point. Let me mention 3 indicators:

First: the "bond spreads" are down for a number of countries (Italy, Spain, Belgium in particular). This is a clear result, immediately understandable to citizens in the countries concerned. A real fact, which should be communicated! It is a signal of confidence.

Secondly: Consumer confidence is rising. For instance in Belgium, which is always a good indicator for the rest of Europe.

Thirdly, and most recently: Yesterday, investors massively backed the EFSF rescue fund, which was able to complete a bond hat-trick. The tide is clearly turning here. And this is linked to the fact that there now is a clear funding program for Greece.

It is too early to say that we are in a "post-crisis period", we should remain prudent, but we are surely in calmer waters. And we should make the best use of this moment.

If you "zoom out" somewhat more, taking a larger time perspective, the pattern upon which I base my cautious optimism because more clear.

Why such a difference between the situation in March 2011 and in March 2012?

1. We have taken strong measures at Union level, most recent one the signature of the Fiscal compact treaty.
2. There has been convincing action by Member States to address difficulties (Italy, Portugal, Greece..).
3. The ECB launched a long term financing operation in December and February known as LTRO.

A quick word on each of these factors.

Ad. 1 Measures at Union level.

Let me underline that in two years we have completely rebuilt Europe's economic governance. Many of the decisions we took over the past two years were quite simply unthinkable only a few months before.

- Stronger self-control by the member states (the debt brake);
- Stronger surveillance on budgets, bubbles and banks;
- Better means to enforce the rules;
- Conditional rescue loans to three countries in difficulty;
- A permanent firewall against contagion.

Even if we had to use the “intergovernmental” road (as some in Brussels would say), because on most of these issues the decisive push came from national leaders in the European Council, I would like to underline that the work we have been doing has actually resulted in stronger central institutions.

- The Commission received unprecedented supervisory power;
- The Court of Justice will control the transposition of the debt brake;
- The European Parliament was decisive in designing the new budgetary and macro-economic surveillance, the so-called "six-pack", which is the backbone of the whole enterprise.

In the years ahead the full outcome will become clear, and may even offer interesting surprises.

Ad 2. Measures by Member States

- Impressive efforts were made by countries under programme (Greece, Portugal, Ireland) and countries under market pressure (Italy, Spain) in terms of structural reforms and deficits (even if more needs to be done).

A recent OCDE reports shows that during the last 5 years, the countries that have done most in terms of structural reforms are no other than the countries which were facing the most difficulties (Greece, Ireland, Portugal)! Even if their overall situation is still delicate, in terms of progress they have proved to be the best performers!

Ad 3. ECB action of December 2011 ("LTRO").

The ECB had the "political space" to make this move thanks to the Fiscal Compact Treaty, to which (in the end) 25 leaders decided to commit themselves.

Together, all these elements result in my being more confident now, than at any other moment since the crisis broke out, that we will come out of it stronger.

To conclude, briefly some words on the next steps for the Eurozone and the European economy.

1. Fiscal Treaty (Budgetary Treaty)

Ratification will be difficult in more than one Member State of the 25, but, as in the past, we will overcome these difficulties (think of the EFSF ratification). Moreover, unanimity is not needed for the Treaty to enter into force.

The Treaty is becoming part of an ideological debate between the Left and the Right. This is a pity, since it was designed as part of our overall strategy and makes most sense in this context. Indeed, since the sovereign debt crisis erupted two years ago, we have dealt with it all along by moving forward on two parallel fronts: responsibility and solidarity.

On the one hand enhancing the responsibility of individual countries. On the other giving concrete form to the solidarity that each has towards the whole. The Fiscal Treaty is a major step towards more responsibility, just like, for instance, the Treaty on the European Stability Mechanism is a major step towards more solidarity. You should not forget this bigger picture.

2. The other upcoming Eurozone topic is the ceiling of the ESM rescue fund. If all goes well, this problem will be tackled by the Finance Ministers, not by the Heads of State and Government. It is another sign that we are in calmer waters. The end of the sequence of "Summits of Truth"! The European Council, as the Union's "crisis body" takes a moment to rest...

3. Going from short-term to long-term, a word on the Growth agenda.

Structural economic growth is needed: to overcome the crisis, to maintain our welfare states (even if reformed) and our standard of living, to defend Europe's role in the world. Growth policies depend in large part on actions by Member States. The adjustment programmes, even though they are painful in the short run (and we see that every day), provide the foundations for future growth. While challenges differ across countries, there is an underlying pattern: we need to work more, longer and better. (It is like the Olympics: *citius, altius, fortius!*)

But some of the work we can only do together, as a Union. Economic growth has remained and is on the fore-front of our action and the ultimate goal. As far as structural growth is concerned, we have to exploit the full potential of the internal market. For instance in services, the digital market or the energy markets. We are also working on re-orientating structural funds to foster growth and employment.

The European Union has now stronger tools to trigger structural reforms than ever before. At the June European Council, leaders will endorse the so-called country-specific recommendations (adopted by the Council following a proposition by the Commission). We will also discuss reform commitments taken by leaders under the Euro Plus Pact. Everybody will have homework to do, and not only the countries under programme or market pressure.

In the field of growth, on the short term also, there are positive signs, not only in this country but also for instance in Germany and elsewhere. One should not put too much weight on monthly movements of economic indicators, yet there is a clear tendency for business and consumer confidence to rebound, even if it may be too modest.

It is good to see that the turning-point in the crisis and the overall positive tendency in Europe are also acknowledged by our international partners in Washington and beyond.

We are not the only continent facing an adaptation of their growth models. This is clearly the case in China, in the United States, in India. Europe will come out of this crisis stronger and more united, as has happened in the past. The Union and the euro are irreversible projects.

The European continent has all the assets to remain a great place to live and work: as the most prosperous, the freest and the most stable part of the world.
