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Deputat Ioan Nelu BOTIŞ

ROMANIA

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La **dezbaterea interparlamentară anuală** a Comisiei pentru afaceri economice şi monetare a Parlamentului European (ECON) au participat membrii ai Parlamentului European şi membrii ai Comisiilor de muncă şi finanţe din cadrul parlamentelor naţionale ale statelor membre.

Temele prezentate spre dezbatere:

- **Strategia post-criză pentru creşterea economică şi ocuparea forţei de muncă**
- **Modernizarea arhitecturii financiare mondiale.**

Au fost doua teme extrem de incitante şi au generat discuţii printre participanţi atât în zonele formale, vorbim aici de întâlnirile oficiale, cât şi în zona informală legată de dineul oferit de doamna Sharon Bowles – preşedinta Comisiei pentru afaceri economice monetare şi care s-a bucurat de participarea preşedintelui Parlamentului European domnul Jerzy Buzek.

Dezbaterile din prima zi s-au axat în mare parte pe ţintele stabilite în Agenda Lisabona până în 2010, cu revizuirea din 2005. Accentele critice s-au remarcat în special din partea ţărilor care au reuşit în mare măsură să atingă o parte din criteriile de convergenţă şi, cu o poziţie mai moderată din zona ţărilor est-europene, ţări care sunt departe de ratele de ocupare stabilite prin Agenda Lisabona sau de procentul stabilit educaţiei şi cercetării din PIB.

În prima parte a dezbaterilor s-a pus accentul pe efectele crizei economice şi coordonatele pe care s-a încercat o gestionare corectă a efectelor crizei la nivelul guvernelor naţionale. S-a indus foarte clar ideea unei rezolvări globale a crizei atâta timp cât criza a fost generată la nivel global. Au fost intervenţii din partea mai multor deputaţi din Parlamentele naţionale, în şirul acestor intervenţii am prezentat şi eu o temă de interes european şi cred că a fost destul de incitantă, legată de sprijinirea tinerilor în procesul de inserţie ocupaţională şi crearea unor facilităţi pentru tinerii întreprinzători şi stimularea mediului de afaceri în scopul dinamizării şi creşterii sustenabilităţii economiilor europene.

Tel/Fax 0263/212.130; Mobil: 0733/558.215; E-mail: biroupresabotis@yahoo.com
Str. Liviu Rebreanu Nr.43 Bistrita, Jud. Bistrita-Nasaud.Cod.420008

Parlamentul României
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Deputat Ioan Nelu BOTIŞ

Partea a doua a dezbaterilor a debutat prin intervențiile directorului general al FMI domnul Dominique Strauss-Kahn, şi a domnului Mario Draghi, preşedinte al Consiliului pentru stabilitate financiară. Anexez alăturat cele doua intervenții.

A avut loc, de asemenea, o întâlnire informală în cadrul unui dineu la invitația doamnei Sharon Bowles, cu preşedintele EUROGRUP şi domnul Jerzy Buzek preşedintele Parlamentului European cu tema "Strategia Uniunii Europene pentru creştere economică şi ocuparea forței de muncă până în 2020 din perspectiva zonei euro".

Deputat
Ioan-Nelu BOTIŞ

Vicepreşedinte al Comisiei pentru muncă şi protecție socială
Camera Deputaților

Tel/Fax 0263/212.130; Mobil: 0733/558.215; E-mail: biroupresabotis@yahoo.com
Str. Liviu Rebreanu Nr.43 Bistrita, Jud. Bistrita-Nasaud,Cod.420008

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"International Policy Cooperation: Essential for Securing the Global Economic Recovery and Modernizing the Global Financial Architecture"

Address by Dominique Strauss-Kahn – Managing Director of the IMF
European Parliament – March 17, 2010

Good morning. It is a great pleasure to take part in this important annual meeting of European parliamentarians. Today, I would like to discuss with you the state of the global recovery, and priorities for modernizing the global financial architecture in support of long-term growth.

We find ourselves at a critical moment in history. We have just been through the most devastating financial crisis since the 1930s—a crisis that has inflicted tremendous costs on people around the world.

The crisis has also been a deeply humbling experience. It has revealed serious weaknesses in our economic and financial institutions. Here in Europe, the crisis has even caused some to question the survival of the European Union.

Now, in the wake of the crisis, we have the opportunity—and the duty—to reshape our institutions—to make them stronger, more resilient to crisis, and hence better able to promote growth and prosperity.

The question is whether we—at the international level, and at the European level—are making the most of this historic opportunity. I fear that as financial markets bounce back and economic growth resumes, the determination to make lasting changes is already receding.

I'd like to focus today on the importance of international policy cooperation for achieving lasting change. By working together, we can lay the groundwork for stronger and more stable growth—and ultimately, for greater prosperity for all nations of the world.

Global economic recovery

Let me begin with the prospects for global economic recovery, and the policies needed to keep it from faltering.

The recovery is shaping up to be better than expected, and we are forecasting global growth of 4 percent this year. But it is clearly a multispeed recovery, with growth varying significantly across the globe. In most advanced economies, the recovery is still rather tepid, and remains dependent on policy support. For the EU, we are forecasting growth of 1 percent this year. In contrast, most emerging economies are already recovering robustly from the crisis, with private demand in good shape to carry growth forward.

As the financial crisis winds down, what are the policy priorities?

In many countries, the most critical task for the next several years is to bring public debt back to sustainable levels—to avoid it burdening interest rates and growth, and stealing room for maneuver in the event of future shocks. This will be hard: in the advanced economies, public debt is set to rise to an average 110 percent of GDP by 2014, about 35 percentage points higher than before the crisis.

What we need now are strategies that can restore fiscal sustainability, but that do not jeopardize the economic recovery by withdrawing support too soon. Key elements of such strategies include strengthening fiscal institutions and reforming health and pension entitlements. Containing the growth of primary spending is also essential, and where needed, increasing revenues. At the same time, however, policymakers must safeguard social safety nets, which remain essential for protecting the most vulnerable victims of this crisis.

Looking farther ahead, how can the recovery be sustained over the longer run? One key is to achieve a better balance of global demand.

This is not a new insight: you will recall that the IMF long called for action to reduce global imbalances. Now, in the wake of the crisis, the leaders of the G-20 have identified it is a high priority, to make growth more sustainable. In the years leading up to the crisis, the U.S. and other economies spending beyond their means were the main drivers of economic growth. This made the entire global economy heavily dependent on these countries—and thus left it vulnerable to a downturn in their economies.

What does rebalancing mean at the country level? While the specific changes will of course vary from country to country, they all have one thing in common: the need to identify new sources of growth.

In economies that have been running persistent current account deficits—such as the U.S., but also several European countries—domestic saving must increase. And to support demand, exports will need to contribute more to growth.

In economies with persistent current account surpluses—such as China, Germany, and many oil-producing countries—domestic demand must go up. Broadly speaking, this means boosting growth in consumption; in some cases, exchange rate appreciation will also play an important role.

The G-20's new Mutual Assessment Program, the so-called MAP, is promising in this regard. Through this framework, the leaders of the world's largest economies are accountable, to each other, for the adoption of national policies that are compatible with the greater global economic good. The IMF is providing important analytical support to the MAP, which is expected to complete its initial assessment by April.

International monetary system

Before addressing financial sector issues, let me also say a few words on the international monetary system, which is an important element of the global financial architecture.

On the whole, the existing system has served us rather well. During the crisis, the U.S. dollar played its anchoring role, and the Fund provided effective support to many of its members.

But the massive build-up in reserves over the last decade has put the international monetary system under some strain.

What can be done to ease these pressures?

If countries had access to better financial insurance, the need to build up precautionary reserves could be lessened. The IMF's Flexible Credit Line, which provides upfront financing with no subsequent conditionality, tries to meet this need. It has already supported several major emerging markets during the crisis—including Mexico, which just renewed its credit line, and Poland. But I think that some further modifications of the FCL could make it more useful to a wider set of our member countries.

Of course, the precautionary build-up of reserves is only part of the story: in some countries, export-led growth strategies have contributed to the reserve build-up. Hopefully, as global demand is rebalanced, this source of reserve accumulation will also taper off.

Building a more resilient global financial framework

Let me turn now to financial sector issues. How can we reshape the financial sector so that it can do its job of supporting economic growth—but without inflicting costly crises on economies and taxpayers?

At the country level, the priorities for reform are well-known. They include widening the regulatory perimeter, beefing up supervision, improving the measurement and regulation of systemic risk, and strengthening crisis resolution mechanisms. In addition, financial institutions should be required to hold more and better quality capital, and improve their liquidity management and buffers.

While some progress has already been made on these priorities, understandably the public is growing impatient with the slow pace of reform. And as taxpayers see bankers continuing to draw outsized bonus payments, even as unemployment continues rising, it is fair for them to question whether politicians are still committed to achieve serious and lasting reform.

While financial markets have staged an impressive comeback, we should not fool ourselves into believing that this means smooth sailing going forward. Even as we take steps to address the risks of yesterday, we must already be thinking about the new risks of tomorrow—and how best to manage them.

The international dimension of financial sector risks will without doubt feature very prominently in this regard. But many countries are approaching bigger-picture reforms from different directions and at different speeds. This presents a great risk of uncoordinated policies, distorted capital flows, and regulatory arbitrage.

Another major challenge is how to handle the large complex financial institutions that dominate global finance. Recent proposals for "special resolution authority" and "living wills" to handle the failure of such institutions at the parent level are very important. There is also a need to consider preventive measures, such as limits on the size and complexity of financial institutions. But the reach of these mechanisms does not always extend beyond the national borders. Nor do all jurisdictions have such resolution authority over financial holding companies. Pending a global agreement, we have a system with holes and go-it-alone national approaches.

Indeed, global approaches stand the best chance of avoiding a competitive race to the bottom, while at the same time limiting the potential for arbitrage across regions.

How far has financial sector reform come in Europe?

There has already been good progress in overhauling the cross-border financial stability framework. The envisaged establishment of a European Systemic Risk Board and a European System of Financial Supervisors, and the European Parliament's proposals to improve their effectiveness, hold out great promise for improving the monitoring of risk, and hence the ability to forestall crises. I urge the Council and the Parliament to reach agreement on this reform package soon, to make these important reforms a reality.

But the reform proposals have yet to address crisis management and resolution, in particular for cross-border banks. In my view, Europe needs an integrated framework for crisis prevention and management, crisis resolution, and depositor protection. The framework should include a European Resolution Authority, with the mandate and tools to deal cost-effectively with failing systemic cross-border banks. While technically challenging, the elaboration of such a framework is feasible—but it will require strong political leadership to come to fruition.

Two concluding remarks

In closing, let me make two final points.

First, the IMF could do a better job of supporting our members as they face the challenges of the 21st century.

To enhance our ability to prevent crises, we must improve our oversight of systemic and financial sector risks, including those related to capital flows. And to strengthen our ability to respond to crises, we need better and more versatile financing instruments. I've already mentioned the FCL. Another possibility is to increase our collaboration with regional reserve pools—following on the positive experience of EU lending in parallel with Fund programs. We could also do more for our low-income members, for example by providing insurance against global volatility and other such shocks.

And second, the key message I would like to leave with you today is that without international collaboration, we cannot be successful in overcoming the challenges of the post-crisis era.

During the crisis, it was the unprecedented extent of collaboration that saved the world from another Great Depression. Now, the need for international collaboration is even greater, as we seek to create a new economic and financial landscape—that delivers strong economic growth, supported by an innovative yet safe financial sector, to the benefit of all nations.

And here in Europe, you face the challenge—and the opportunity—of creating stronger, better mechanisms that can take the European project to the next level. But you must also use your political influence to make sure that a global solution will emerge.

Thank you for your attention.

Modernisation of the Global Financial Architecture: Global Financial Stability

Remarks of Mario Draghi
Chairman of the Financial Stability Board
to the
Committee on Economic and Monetary Affairs
European Parliament
17 March 2010

Thank you very much for having invited me to take part in this important debate between European and national parliaments. International and regional cooperation and national political leadership are essential complements for achieving global financial reforms; and the debate in this Committee is really helpful for that purpose. It is ultimately national and regional legislatures, accountable to their voters, that must decide and implement reforms.

The strains in the global financial system have eased considerably in the last twelve months: the banks are once again raising funds, asset write-downs have diminished. Nevertheless, elements of fragility are still present in various parts of the financial system and risks, mainly related to the deterioration of traditional loan books, the bunching of refinancing needs in the next few years, and to new sources of risk such as sovereign risk. It is essential that we can count, in the years to come, on a fully restored ability of the banking sector to perform its essential tasks in the economy.

We have come a long way towards strengthening the financial system since this crisis began. But we have hard work ahead of us to finish up. In my remarks, I will focus mainly on these forward challenges. But let me start by taking stock of where we have gotten to.

Three things have been important in getting us to where we are now:

- First, the recognition that, in a closely integrated system, we all sit in the same boat;
- Second, the leadership of the G20 process, in which the EU has played an important role, in agreeing objectives and timelines for substantial reform; and
- Third, the establishment of mechanisms, such as the FSB, to hasten and coordinate the policy development needed to meet these objectives.

When I say we have gotten far, I am speaking to an unprecedented amount of international dialogue and co-operation on important financial system issues, and the resulting substantive changes that either have or are about to come into place. While many issues remain to be resolved, in Europe, in the US and elsewhere, we are, collectively, fundamentally reshaping the framework for systemic financial oversight:

- First, top-down, system-wide oversight arrangements are being put in place at the national, regional and international level. These include more encompassing surveillance, with broadened macro-prudential perspectives, as well as mechanisms for triggering action on identified risks. Examples are the European Systemic Risk Board and related arrangements, the US Financial Services Oversight Council, the IMF-FSB Early Warning Exercise, and the establishment of the FSB itself.
- Second, as part of this, major jurisdictions and regions are overhauling their regulatory and supervisory structures to strengthen responsiveness to systemic risks, improve coordination and close gaps. The FSB is in many ways the international manifestation of these efforts;
- Third, the regulatory perimeter is being expanded. Major jurisdictions are finalizing legislation that for the first time establishes formal oversight over the OTC derivatives markets and its major dealers, hedge funds and credit rating agencies. In each of these areas, principles for what regulation should achieve have been internationally agreed;

- Fourth, we have put in place cross-border oversight and crisis management contingency planning for the largest and most complex global financial institutions, each of which now have functioning core supervisory colleges and crisis management groups.

At the level of the essential regulatory policies to buttress financial stability, let me recall:

- that we are in the process of calibrating a fundamentally revised global bank capital framework which will establish stronger protection through improved risk coverage, more and higher quality capital, a counter-cyclical buffer and a constraint on the build-up of banking sector leverage;
- Second, we have developed and will implement a global liquidity standard for banks that will promote higher liquidity buffers and constrain the maturity mismatching that created the condition for this crisis;
- Third, we are making progress in developing a policy framework and tools to roll back the moral hazard risks posed by institutions that are systemically important;
- Fourth, we have eliminated the perverse incentives that pervaded securitization, including the scope for leverage to develop in opaque off-balance sheet vehicles through changes to accounting standards and regulatory and prudential rules;
- Fifth, we have developed a series of supervisory tools to raise standards of governance, risk management and capital conservation at core financial institutions. In this context, let me note that:
    - o we are making strong progress towards a forward looking expected loss provisioning regime for credit losses which will dampen procyclicality and align accounting and prudential objectives in this key area; and
    - o we are making good headway towards establishing compensation regimes that are better aligned with risks taken in significant

financial institutions.

I have been selective in my enumeration. But the point I want to make is that we should not underestimate what has been accomplished. Each of the above areas are difficult in their own right. That we have been able to progress global policy development and in cases implementation on such a broad front, while fighting a very serious financial crisis, is something that has never happened before.

So, the direction in which we are moving internationally is encouraging. But as we hit the homestretch in the above areas, your political leadership will determine whether we accomplish credible and robust global reforms that deliver the protections that our citizens rightly demand, yet preserve the enormous advantages of an internationally integrated financial system. We must not only reaffirm our commitment to global solutions, but demonstrate our willingness to reach agreement on the issues that stand in their way. We cannot all have it our own way.

In the process, we must guard against pressures to water down the stringency of global reforms. That such pressures originate within a financial industry concerned to preserve competitive advantages is not a surprise. But such pressures are also evident in hesitation by some countries about the impact of reforms on their own financial institutions. This hesitation is stronger where the starting point is weaker. However, it would be a very serious and unfortunate mistake to allow these different starting points to result in weaker standards than we need for the future.

Given the economic and social costs of this crisis, we simply cannot afford sub-standard outcomes. And were we to fail, the risks is that countries and regions will go their own way and that the system will fragment, with very significant global costs. Hence, we must keep our focus on achieving global standards that are credible, and as part of this, agree transition and phase-in arrangements that enable all of us to move there. I will come back to this point.

Let me speak to the key areas where we need to make headway in the months ahead.

First and foremost, we must complete the revamp of the Basel capital framework and the liquidity standard, along with the complementary changes, including provisioning, that address the problems of procyclicality that we have seen in this crisis. We made a major step forward on this issue in December, when the Basel Committee released - on schedule – the full package of reform proposals. Comprehensive impact assessments are now underway to assess the consequences of the December capital and liquidity proposals on the banking sector. This is complemented by a top down assessment to calibrate the new minimum requirements, taking account of, among other things, loss experience over this crisis, and the impact on banks' role in the financial system and the benefits and costs of the new requirements in the steady state.

As I mentioned earlier, it will be critical that we do not let current strained conditions shape the standards, but instead keep our focus on the rigorous framework needed to ensure balanced, sustainable banking in the years ahead. While the banking sector has already made significant progress to raise the level and quality of its capital and liquidity, immediately implementing in full the more stringent minimum requirements could have negative effects. We will design appropriate transition and grandfathering arrangements that rule this out. We have set in train jointly with the Basel Committee, and with the IMF as a key partner, a thorough macroeconomic impact assessment to inform these phase-in and implementation arrangements. Preliminary results on all assessment streams will be available in June/July. Calibration work will continue into the fall, and the broad features of the framework, along with the transition arrangements, will be ready by the G20 Summit in November. Countries will need to pass any necessary legislation to implement the reform according to the agreed timetable, and the EU is at the forefront of this.

Second, this year we must agree on measures to credibly reduce the moral hazard and systemic risk caused by firms that are "too big to fail". TBTF is first and foremost a national problem – at worst when institutions are too big to save. But we are all affected by the moral hazard consequences of the problem going unresolved. There is no silver bullet or one-size-fits-all solution here. One focus of our work is therefore to provide supervisors with tools that enable them to take action in national contexts under existing authority – governance, intensity of supervision, structural simplification, capital surcharges, etc. Systemically important financial institutions have to be resilient even in periods of broad financial system stress events. Capital, liquidity and leverage expectations should reflect that. But we will never be able to fully eliminate the potential for failures, therefore a key requirement across all jurisdictions is the establishment of effective resolution frameworks that allow all types and size of institutions to fail, and adequate co-ordination of these frameworks across borders. This is a tall order, as we all know. However, should effective cross-border resolution prove out of reach, it will strengthen the case for alternative solutions: to place restrictions on activities/size/structure that make all institutions resolvable, or to raise capital and other requirements on systemic institutions to a point where the likelihood and impact of default is reduced to a very low level. This will come at a cost to intermediation and global financial integration.

Given the diversity of institutions and financial systems involved, a key challenge will be to avoid inconsistencies in what results. We must achieve consistent design and implementation of new measures to ensure a level playing field and to address potential concerns about market fragmentation. Our aim is to reduce systemic risks globally by having standards for TBTF firms that set a common floor, and actions across countries that are sufficiently coordinated to avoid regulatory arbitrage. We will provide an interim report on these issues to the G20 Summit in June, and final recommendations to the November Summit.

<u>Third, we must finalise reforms to regulate, make transparent and centrally clear a substantial portion of the OTC derivatives markets</u>, and so reduce their scope to act as channels of contagion. Legislation is advancing in the US and EU to establish the requisite frameworks for this. Among critical questions to resolve are:

- which derivatives products can and should be standardised, and ought to be subject to a mandatory central clearing requirement;

- whether, and if so how to define which type of, commercial end-users should be exempted from these requirements;

We must be careful to avoid inconsistencies here, because this will drive regulatory arbitrage in this global market. To accomplish meaningful systemic risk reduction, we need robust globally agreed standards of soundness for all central counterparties. And governments should ensure that the determination of which derivatives should subject be to central clearing is not left to central counterparties alone. We also need harmonised definitions of standardised derivatives, and are setting in train work across the US and EU to this effect. It is also imperative that regulators have the information available to them to police the market for potential manipulative abuses. This is why there must be mandatory trade reporting of all OTC derivatives transactions, regardless of whether they are centrally cleared or bilaterally negotiated.

Fourth, we must firmly embed reforms to compensation practices at financial institutions. As you know, the FSB set out Principles and Implementation Standards for Sound Compensation arrangements last year. In December, we launched a detailed assessment of implementation of these standards. This is a very important task not just because this is the FSB's first peer review, but also because of the importance and political dimension of this topic. We are on schedule to conclude this review later this month. The review points to a key message – that a lot has been done by national authorities and that change is taking place in the major firms. However, differences remain in the approach to and pace of implementation. Greater progress has been achieved in the areas of governance, supervisory oversight and disclosure of compensation, while much more work needs to be done on pay structures and risk-alignment. We will be setting out additional recommendations in this area later in March.

Concluding remarks

At the outset, I noted that international cooperation and national/regional political leadership are complementary drivers for achieving global financial reform.

Together, we have come a long way. But 2010 will be a critical year as we press ahead with global financial reforms. To maintain the momentum, we are critically dependent on your support. Indeed, internationally coordinated reforms cannot be agreed nor implemented without the support of national political leaders and those who are in a position to make final decisions. Your decisions, and those or your colleagues in other jurisdictions, will determine whether we are able to build a more robust and consistent global financial order necessary to preserve the advantages of an integrated financial system.

Beyond the policy development work, full and consistent implementation will take time and perseverance. As I said, we must keep our eyes on the end objective, and we will develop transition paths to take us there. As we work to improve international cooperation and to further financial reforms, I hope we can count on the political support and leadership of all of you in this room.

Thank you very much.