A EURO FOR GROWTH AND CONVERGENCE

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This Tribune transposes the speech delivered by the Minister of Finance of Portugal, Mário Centeno, on the occasion of the high-level debate organised on the 22nd of February 2017 by the Jacques Delors Institute and the Calouste Gulbenkian Foundation, about the report "Repair and prepare: growth and the euro after Brexit" published by the Bertelsmann Foundation, the Jacques Delors Institute and the Jacques Delors Institute - Berlin.

This debate on the future of the euro is vital, and has brought together policymakers, experts, academics and the general public. This kind of reflection transcends our day-to-day pressures, forcing us to think about the medium and long term. It is our duty, as policymakers, to be part of this thought process and to seek solutions that will strengthen the euro and Economic and Monetary Union. This is the only way that the governments of European Union countries—both inside and outside the euro zone—will help to raise the living standards of their citizens and make business more competitive.

Growth and convergence should be at the heart of this debate, and governments should make them the ultimate goal of Economic and Monetary Union. Without sustainable and equitable growth for all members of the Union, without convergence, the European project will fail.

It is these ideas that brought us together today, and those same ideas inspired the High Level Seminar on "A Euro for Growth and Convergence" held on the 24th of January. At the seminar, organised by the Government, the Portuguese Prime minister said: "incomplete as it stands, the Monetary Union exacerbates the difficulties and accentuates the asymmetries", but also that "reforming the euro is both technically and politically possible". The seminar reached the same conclusions as the report presented today.

We have to be pragmatic. Without wishing to go into too much detail diagnosing the current shortcomings of Economic and Monetary Union, I would like to stress that we know the weaknesses we face, but that does not mean the way forward will be easy.

As early as in 1989, the Delors Report on Economic and Monetary Union said that the success of such a Union "would imply a common monetary policy and require a high degree of compatibility of economic policies and consistency in a number of other policy areas, particularly in the fiscal field". He also stressed that "monetary union without a sufficient degree of convergence of economic policies is unlikely to be durable and could be damaging to the Community." And that is precisely where we are today. We have a common monetary policy, limited coordination of fiscal policies and no cross-cutting economic policies.

The report we are discussing today goes to the very heart of the issue that we face: the euro is vulnerable and needs the structure of Economic and Monetary Union to be made stronger.

Twenty-eight years have passed since the Delors Report was published, and we must improve the decision-making process in Europe.

That process is influenced by the economic cycle, but also by the European electoral cycle, which often hinders progress.

The changes we have observed in recent months are of a structural nature. And those changes can influence how we position ourselves in the world.

At times such as this we need more Europe. Policymakers are fearful because mistrust has taken hold in Europe. We must respond by striving to focus on essential matters, on areas where we know we agree.

Let us talk about trust. In an Economic and Monetary Union, all parties, all countries, must follow the rules and produce results. The way countries achieve these results should be seen in the light of the current structure of Economic and Monetary Union. Portugal, for instance, will comply with the Stability and Growth Pact for the first time in many years. Our deficit will be well below 3%. The European Commission has already confirmed that this deficit reduction is sustainable and durable, as reflected in the reduction in public debt. But will this be enough? Can the Portuguese economy achieve its growth potential in the current context? The answer is simple: no European economy is achieving its potential. This is not about country A or country B, but rather a challenge we all share. We must be able to restore trust among our respective countries in order to move forward together. If there is trust, we can move forward pragmatically, as Jacques Delors calls for in this report. The contribution made by Henrik Enderlein, Enrico Letta and their team is essential, since it clearly highlights the areas in which we must start moving, immediately, towards a closer Union. The three-stage approach is coherent, sound and achievable.

The "first aid kit", as the report calls it, has the advantage that it does not require changes to the Treaties and it puts forward proposals for which there is already a consensus among member states. Completing the Banking Union and the backstop to the Single Resolution Fund is of central importance. This step is essential to restore trust in Europe's financial sector. The role of the ESM can also be strengthened now, though only if the European Commission's powers are respected.

The report also calls for greater economic policy coordination, a central aspect of the 1989 report. This aspect deserves closer attention. At the European Union level, creating the European Fiscal Board will improve the coordination of fiscal policies, both among states and at the aggregate euro-zone level. The European Fiscal Board is a very new body, which we must support in its role as a driver of greater coordination on fiscal policies. Coordination on economic policy, which should take place through the European Semester, should also be enhanced. The challenge here is to ensure the States adhere to and adopt the Semester and the Country Specific Recommendations. One possibility is to involve the European Parliament and/or the national parliaments. The European Semester needs to become simpler, not more complicated than it already is. The first version of the Stability and Growth Pact had 90 pages; the current version has more than 600.

The other two stages put forward are more ambitious, but they are achievable nonetheless. The second set of priorities emphasise the need to support public and private investment. There seems to be a broad consensus regarding Europe's capacity to better use existing instruments—Structural Funds, the European Investment Bank and the Junker Plan—to boost investment capacity. We can certainly move forward in

this area, channelling investment towards areas that drive sustainable and equitable economic growth and promoting convergence among Europe's regions.

The third set of priorities that are put forward are perhaps the most important. Although they are not feasible right now—hence the need for pragmatism—they should serve as a guide for building our Economic and Monetary Union. The debate has revealed a clear consensus that the European Union needs to have its own budgetary capacity and a European Monetary Fund. Once again, Europe can and should learn from positive experiences: the United States of America have had a monetary union for over 200 years and has these kinds of institutions, which are essential to ensure that the vital aspects of the economy (monetary, fiscal, budgetary, employment and investment) continue to function. Naturally, this type of integration will require automatic stabilisers, such as a mechanism to counter unemployment. Under this kind of economic coordination, transfers should not be permanent, but rather they should be temporary, allocated according to the economic cycle based on convergence objectives. This kind of distribution would fully respect one of the fundamental principles of the European Union: the principle of subsidiarity.

The challenge we face is to ensure that these institutions are effective, representative and subject to democratic scrutiny.

In conclusion, allow me to return to the report's main message: we should not wait for the next crisis to come before we strengthen the Euro. Today, we are in a good position to bolster the Economic and Monetary Union gradually and pragmatically. We should be able to sign up enthusiastically to this project. In doing so, we will be building up trust in our economies, which will encourage investment, employment and convergence.

The time has come, in the context of Brexit, for European political leaders to reaffirm their support for the euro at the Rome summit. Support based on sharing responsibilities among states, cemented by mutual trust. Portugal, which is still a pro-European country after years of crisis, will endeavour to strengthen this common destiny of ours.

In politics, alternatives are vital. For Europe, Portugal's example is a good example.

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