



MINISTÈRE DE L'ÉCONOMIE
ET DES FINANCES

“The Eurozone agreement – a mini revolution?”

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Good morning,

Thank you for your invitation. I like the title you chose for this conference but you should remove the question mark. Is the Eurozone budget a mini revolution? Yes. And more revolution than mini.

The euro is now 20 years old and it is a tremendous success. The euro has helped to boost growth, ensure price stability, lower interest rates and foster trade between member states. It has no doubt been a success, no matter how you look at it.

But the crisis that started ten years ago with the bankruptcy of Lehman Brothers and morphed into the wider Eurozone crisis clearly showed the weaknesses of the euro area architecture. Many of these weaknesses were addressed during the crisis, but not all.

We all know that the monetary union remains incomplete. Countless economists and expert international institutions highlight this on a regular basis.

Improvements are needed to better shield Eurozone Member States from future economic or financial crises. And to protect our citizens' jobs, businesses and savings. To help our economies converge. And to allow our economies to grow more over the long run.

In the last ten years, the simple fact is that we have not been able to take the necessary decisions to tackle these weaknesses once and for all. It's now time to take those decisions.

So, the agreement reached last month is good news. Very good news. It's not the end of the process, it's not the finishing line. But it's the essential starting point.

You need to consider where we have come from. It is only two years since we started to revive the Franco-German dynamic with Wolfgang Schäuble. And I remember my first trip to Berlin two years ago when I had just been appointed, and Wolfgang Schäuble told me "you can say whatever you want, but please don't use the words Eurozone budget". It is just over a year since we reached the historic Meseberg agreement thanks to nights of negotiation between Olaf Scholz and myself. We are on the right track; and we now need to move further.

It's like building a house – it's a step by step process. Like the European construction. But we have a unique opportunity right now with the new Commission and Parliament.

The June agreement is an essential brick. It will strengthen the Euro Area.

It strengthens the European Stability Mechanism, which is no longer limited to addressing crises, but will now also help prevent them. A big change in the right direction.

It finally creates the common backstop for the Single Resolution Fund as the ultimate safety net in case of banking crises.



And most importantly, it creates a Eurozone budget that will promote a greater convergence of Eurozone economies, which will improve competitiveness by financing public investment and reforms.

I remember full well what everyone, probably many of you in this room, said two years ago when I started this job and said that France wanted to create a Eurozone budget. “Impossible”. “Guaranteed failure”. “Utopia”. Too many countries would be opposed to the mere concept, let alone making it a reality.

Well, the doomsayers were wrong. “A pessimist sees the difficulty in every opportunity” Winston Churchill once said. I believe in the exact opposite.

There is of course still some way to go in the coming weeks and months. In particular, we need to agree on the specific resources of this budget. And I will not be satisfied with a tiny budget. Although I have always said size is not the most important issue right now: an effective budget architecture is by far the most important feature of the budget.

And that means the most important thing for France is that this budget is decided at 19 – the 19 members of the Eurozone. If you are not in, you can join. But you can’t be in and out.

This means that the euro area’s own resources are needed. Funding which would come only from the European budget decided by the 28 is not good enough. The euro area must have its own decision-making autonomy. We are the ones who share a currency, we are the ones who decide its common priorities. This will also enable us to allow this budget to evolve according to needs, in particular to face a new crisis.

It’s all a matter of political will. And we will keep working and discussing so the first Eurozone budget is a reality in 2021. It’s a new decisive phase for our economic and monetary union.

So yes – this is a revolution. But of course we need to go further. Further steps remain needed to transform a shared currency into a fully efficient monetary union.

There is an absolute necessity for more growth within the Eurozone. The average level of growth is a failure for all of us. And it has been a failure for more than 10 years – since the start of the crisis. It is not sustainable over the long run to have such a low level of growth. We need more growth, more sustainable and more inclusive growth. Or we will feed populism. If we want to defeat populism, we need to take the decisions to ensure greater growth. You can’t have political stability without economic prosperity.

That is why I have proposed a Compact for Growth for the Euro area.

This compact should take into account the current situation of an accommodating monetary policy and low interest rates. It is the current situation. And politicians should take that into account.



The Compact for Growth should be based around three main points:

- **pursuing structural reforms and controlling public finances:** for some countries this is more essential than others. President Macron made a choice: we have introduced key structural reforms, they are difficult, but essential and we will pursue them. Some other Eurozone member states also need to take on such reforms.
- **more investment:** countries with fiscal space need to invest more. Given its political weight in the euro area, Germany has an important responsibility. There is a desperate need for more investment in the euro area, especially in innovation and infrastructure. It will benefit Germany, its neighbours and the whole Euro area;
- **further strengthening of the euro area.** Implementation of the budget of the euro area is essential. But that will not be enough.

We need deeper integration of the Eurozone. It requires completing the Banking Union, building a fully-fledged Capital Markets Union and in the long a stabilization function for the Eurozone budget.

On the financing of innovation, we have fallen behind. In 2018, for venture capital, 100 billion dollars were channelled to start-ups in the United States, 80 billion in China, 20 billion in Europe. We need to catch up and take the lead. For that, we need to build a genuine Capital markets union. It will help all European companies – big and small – to finance themselves more easily, in particular so they can scale-up. We have set up a joint High-level working group with Olaf Scholz and Wopke Hoekstra so that we can provide new ambitious ideas to the new Commission on how to deepen the Capital Markets Union.

We also know we will have to go further with a stabilization function for the euro area. Some countries are firmly opposed today, and this is no secret. But I am convinced it remains essential. All international institutions agree. So do the vast majority of economists. As do a large majority of Eurozone member states.

Why? Because a counter-cyclical stabilization function is the best response to a shock so it does not end up weighing solely on the public finances of the affected Member State.

In a currency area, Member States are deprived from the main traditional tool to cope with a shock: devaluation. We cannot go on ignoring this basic fact, and we have to come up with solutions to fill the gap. Yes, reforms and healthy budgets are essential. But they are not enough. Once again – look at Ireland or Spain and the last crisis. They had budgetary surpluses before the crisis hit: was it enough? No.

So experience shows we need a Eurozone budget for convergence but also for stabilisation – over the long run.

In Meseberg, France and Germany put forward specific proposals to build such a tool, for instance the Euro Area Unemployment re-insurance Scheme. It's a very good idea.



Establishing this stabilization function must remain our goal in the long-term despite the opposition of some today.

The majority of Eurozone countries are already in favour of such a move. Those who oppose it are vocal but they are not the majority.

But it's also true we need to reach a consensus. So I won't abandon my efforts with those countries that need convincing.

We also need to strengthen the international role of the euro and I fully support the ideas put forward by the European Commission.

Why? First I want Europe to be sovereign in its foreign policy. Let's take the example of American sanctions against Iran. The prospect of being shut out from using the dollar has proven a very powerful tool for the US to exercise leverage on European companies. I don't want our companies to suffer from American decisions that we don't always share.

Second point. There is a clear advantage for companies who import and export if they can reduce their exposure to exchange rates risks. Today Europe pays 80 % of its energy imports in US dollars. If the equivalent transactions were in euros, the benefit in terms of exchange rates risks could be very significant.

Third point. Today, for transactions globally, the euro has become a widely used currency: it represents 36 % of the value of international payments, which is close to the US dollar with 40 %. But the euro represents only 20 % of international reserves whereas the dollar represents 60 %. I think it is in our overall interest that the euro becomes a larger reserve currency, although the effects on exchange rates and the strength of the currency are complex and will need to be managed carefully.

It's clear: a strong euro is essential for our European economic sovereignty.

But of course, the Euro Area also relies on the core foundations of the EU and its single market. And we need to deepen it further too.

How? We need to progress in terms of fiscal harmonization and social convergence. It is an essential condition for fair competition within the Single Market. It's the only way we can have competitive firms growing without jeopardizing the social market economy model at the heart of the EU's economic strength.

On social convergence, it will be necessary to accelerate the implementation of the European pillar of social rights, for instance through the European semester.



On tax issues, more harmonization will be needed, starting with the progressive transition to qualified majority voting, as proposed by the Commission, to modernize our VAT regime or finally bring work on CCCTB to a conclusion.

Step by step, all features of the Single Market will need deeper integration.

To remain in the technological race against China and the US, it is essential that we make technological sovereignty one of the top priorities of Europe – because our political sovereignty depends on it.

This requires building a genuine shared European industrial policy. Not a state led old style planification. This common industrial policy is of course inseparable from competition policy and trade policy. The times when these policies could evolve separately are now over.

Competition policy is vital for us to allow European companies to grow and be world leaders. And we will need to adapt our competition rules to the new economic realities that are facing us. This will be one of the major tasks of the new Commission.

This is why France, Germany and Poland put forward a common proposal last week in Poznan. It aims at initiating a debate, with the Commission and Member States on the necessary steps which must be taken to adapt competition rules. And we call on all Member States to join this contribution.

We are a time when a new impetus for European construction is needed. We have not drawn all the consequences of the crisis of 2008. We have done a lot, but ten years after the start of the crisis, look at the landscape: people are hesitating between more nationalism or a new impetus for Europe.

Clearly there is a need for a new impetus, and now is the time for decisions. And in particular for the Eurozone – as it's at the heart of the European project.

Either we manage to strengthen the Euro Area by completing its architecture; allowing banks and businesses to grow by building genuine banking and capital markets unions, deepening our single market, adopting a modernised coherent approach to trade, competition and industry.

Or we will feed the sceptics of all those who say – the Eurozone is a failure, look at growth and job creation compared to the USA and other big states.

So let's move forward. And let's work with others to make it a reality.

Thank you.