Speech by Mr. Marek Belka at the 63rd Commission Session

Of course, it is unnecessary to say how excited and moved I am, speaking to this audience, in this place, in my new role. I should also start with a disclaimer that what I am going to say will be entirely on my own behalf and not representing the view of the International Monetary Fund (IMF) that I work for now. It is not that I will be saying something which is contrary to the view of IMF but I will offer remarks that, for the most part, go beyond the IMF domain and policies.

I am going to say something which in my opinion has immediate relevance for the work of ECE and not dwell on the crisis itself, how it came about, how it is now thought by, among others, the IMF.

Moreover, I would like to concentrate on what I think Europe, as part of the global economy, will look like after the crisis and what kind of challenges emerge for the whole continent, for the whole region, and more specifically, for the western part and for the eastern part.

Of course, nobody expected the crisis in its present form. There were people who alerted that the speculative excesses could lead to a collapse. But really nobody, or almost nobody, had enough imagination to describe the extent and the immediate consequences of what we are witnessing now. I can remember about a year ago we were preparing, with Robert Shelburne, a statement on the part of our Commission comparing different groups of emerging economies, Central and Eastern Europe being one, and the others were Latin American and Asian countries. How different they were! And one big difference was the dependence on foreign capital. This enabled our region to grow fast, the consumption to grow parallel – the civilizational gap being closed much faster than without this inflow of capital. We asked ourselves the question how sustainable was this model. Well, it was a good question. It is even a better question now, but obviously we did not really envisage the magnitude of change that we were about to enter.

Let me say first how I would like to conclude. I think that this crisis will change the global economy and European economy in a non-trivial, lasting way. The biggest challenge, especially for the western part of our region is the test for the cohesiveness of the European Union and, even more so, for the European Monetary Union. EMU and the European Union were not conceived for a time of crisis. This is the first big test and we will see how well they will survive, how fractured they will emerge after the crisis. This is the main challenge for the western part of our region.

What is the main challenge for the eastern part? It is how convergence will be resumed. The last 20 years have brought a huge, unprecedented historical success for most of these countries – growing fast, closing gaps: economic, cultural, health and even social – and this is again a testing time for Eastern and Central Europe, because the economy after the crisis will be different from what it used to be before the crisis.

Now let us elaborate on this. Let us start with the West. There were always divergences in economic performance within the European Union – both good and bad divergences. “Good divergences” lead to elimination of income disparities within the Union, i.e. less developed countries grow faster than their more advanced peers. The same goes for prices – where prices are lower, they grow faster to produce a broadly uniform price level in the whole community. When a country, due to poor policies, lags behind consistently – growing slower, falling back – this is a bad divergence. It was all there. However, the particular situation on the capital market basically blurred these differences. The cost of capital for all was almost the same and very close to nil to all intents and purposes.

The crisis brought this back to the fore. The real differences are now reflected in the different spreads, differing rates of interest, differing costs of capital, differing costs of development for countries. It is not an anomaly. It is something that was expected. But we are now back in the real world, so to speak. This is a testing time for the European Union. How to deal with differences within the community, within the euro zone itself? How to deal with countries that have unsustainable fiscal positions, that are witnessing a speculative bubble bursting? How to deal with them, how to help them and not endanger the cohesiveness of the European institutions, not least the European monetary institutions?

Again, will the single market survive unhampered? Will financial integration survive in an unfractured way? If a cross-border bank fails, how will the burden-sharing be executed? Who will pay? Well, we already have a telling example of a bank originating in Belgium – Fortis Bank – that went bust. The issue was resolved along border lines, because there is no community-wide fiscal authority, fiscal instruments to take care of a situation like this. This leads me to a pure speculation. The crisis will flag the necessity of building up additional institutions to strengthen the integration and, in my personal view, which will lead to the building up of certain institutions that are characteristic for a State.

A crisis like this shows that you cannot have a currency and develop its weight, its full significance, without the backing of a fiscal authority. This is a challenge for the European Union and this is a challenge for ECE because this is also our environment.

Now, going to the East. Well, what will the economic environment be for the converging economies? Be it new member States of the European Union, be it associate members of the European Union, or be it Central Asian republics, be it other countries in what is called the “neighbourhood” of the European Union.

Clearly, there will be less room for bad policies because there will be no abundance of cheap capital to cover up bad policies. There will be less available capital. The need to better use existing resources, domestic resources, will be even more pronounced than ever. It is not exactly sure whether international trade will not go down, for at least a certain amount of time. What we are seeing now is the sheer implosion of international trade. I think it is transitory. However, we may also speculate that some international trade flows will disappear forever. If the United States society starts saving again, there will be less trade, there will be less trade between the United States and China, there will be less trade between China and Vietnam, between China and Germany, and between other parts of the global economy. There will be less trade everywhere. This is a speculation, of course. We do not really know what will happen in 10 years time. But we have to be prepared in our trade policies to look inside and to our immediate neighbourhood. I think that domestic economy and intraregional integration will play a larger role than before. We should not count on global trade to such an extent as we are counting on it now. Look at your neighbours. Look at yourself. Try to develop your own productive capacity, productive base. Don't count on generous inflows of foreign capital that will inflate your financial system or real estate sector. This is a warning for many of our East European and Central European economies that relied too heavily on these two sectors. If there is less capital, growth will be more dependent on the quality and quantity of human capital. If you cannot count on easy and inflows of inexpensive foreign capital, you have to rely more on your domestic resources and your domestic labour, your domestic human capital. This is what I meant also by saying less room for poor policies, less room for poor policies concerning human capital. This is by the way a strength of the countries of this region.

Now to finish my remarks:

Will the role of what we are doing at ECE be increased or reduced? What ECE is about has very little to do immediately with the financial crisis of the world today. However, it has a lot to do with the economy after crisis. If the future economy is more dependent on countries' domestic resources, including on the domestic productive base, domestic human capital, what UNECE is doing assumes even greater significance than before. If countries become more dependent on their neighbourhood, on subregional or domestic trade, even more important is how they develop transport infrastructure, border-crossing infrastructure, trade facilitation infrastructure – all areas that you in ECE are strong in. I think that the world will be less inflated, less speculative, more conservative, more down to earth. This is exactly what ECE is all about.

Thank you very much.