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Informal Ecofin Meeting in Porto

14-15 September 2007

European Union Finance Ministers and Central Bank Governors gathered at an informal meeting in Porto on 14-15 September. In the meeting, chaired by Fernando Teixeira dos Santos, Minister of State and Finance, the following subjects were discussed:

Quality of public finances - the modernization of public administration and its impact on competitiveness

Ministers and Governors had a debate on the quality of public finances, focusing on the relevance of the modernisation of public administration for both expenditure efficiency and overall competitiveness. The topic is among the priorities of the Portuguese Presidency of the European Union.

Member States have been implementing wide-ranging reforms of public sector management practices. These reforms are leading to an increased focus on performance, a re-design of roles and responsibilities, a greater use of ICT and improved human resource management frameworks. Mr. Wilhelm Molterer, Austrian Minister of Finance, made a comprehensive presentation of his country's experience in this domain.

These reforms recognise that public expenditure management resting on principles of efficiency and effectiveness is key for competitiveness. This is so not only in view of the weight of the public sector in the European economies, but also because a leading role of the public sector in promoting the quality of governance and best practices can generate significant positive spillover effects on the private sector. Michael Klein, Vice-President of the World Bank, leader of the "Doing Business" project, was a guest speaker at the meeting. He made convincingly the point that a modern and efficient public administration and better regulation will translate into higher growth and employment levels.

In spite of the major gains to be expected, the experience of Member States shows that reforms aimed at the modernisation of public administration face important challenges that should not be underestimated. Challenges include the need to gather broad support for the reforms and keeping the reform momentum, as well as the operational difficulties in the measurement of public sector efficiency and evaluation of reforms. These are areas where learning from others' experience may be particularly useful, namely as a way to allow for benchmarking.

A number of avenues for future work on the quality of public finances have emerged from the debate.

Ministers acknowledged the importance of the modernisation of public administration for expenditure control and for competitiveness and growth. Public administration reform thus contributes to the achievement of both the objectives of the Stability and Growth Pact and of the Lisbon agenda, and should therefore be subject to regular and systematic monitoring at EU level.

Ministers also reaffirmed that improving the measurement of expenditure efficiency and effectiveness is of utmost relevance and encouraged the Commission and the Member States to pursue work in these areas.

Economic and financial situation

Ministers and Governors debated the economic situation and the current period of volatility and re-appraisal of risk in global financial markets, triggered by the difficulties in the US subprime mortgage market. A common Statement was issued following the discussion (Annex).

While recognizing that the current financial market volatility and its possible implications for global credit conditions heightened uncertainties and downside risks to the outlook for growth, Ministers and Governors underlined that macro economic fundamentals in the EU are strong and that most projections see euro area real GDP growth in the second half of 2007 and in 2008 in line with potential growth. Also, EU financial institutions are sound and resilient and can weather the current episode of financial-market volatility.

Preliminary lessons to be drawn from the current episode were also debated. It was considered that the EU regulatory and supervisory framework is sound and that the Capital Requirement Directive now being implemented and on-going work on Solvency II Directive will reinforce it further. However, while enhancing market efficiency, financial innovation also raises obvious challenges to the regulatory and supervisory authorities. In this context, the Economic and Financial Committee (EFC) will review, alongside our international partners, how to further improve transparency of complex financial instruments, of institutions and vehicles, as well as how to improve valuation processes, risk management and liquidity stress testing. They will also consider the role of rating agencies in structured finance.

Developing EU arrangements for financial stability

Ministers and Governors discussed the financial stability arrangements in the EU as part of the objectives to obtain the full benefits from financial integration. Following the work priorities decided in Helsinki in September 2006 and the outcome of the meeting in Berlin last April, the discussion focused on further steps in developing the arrangements for cross-border financial stability within the EU based on recommendations by the EFC.

The Ministers and Governors welcomed that the EU Member States have continued to progress in developing their national arrangements for financial stability and co-operation between Supervisory Authorities, Central Banks and Finance Ministries.
Ministers and Governors agreed on further work priorities to be taken at the EU and national level. The main actions are as follows. First, The Memorandum of Understanding (MoU) signed in 2005 between EU Banking Supervisory Authorities,

Central Banks and Finance Ministries on co-operation and information exchange will be extended to include common principles in the field of financial stability, agreed today; a common analytical framework for the assessment of systemic implications of a potential crisis; and common practical guidelines. Second, authorities in different Member States that share common interests regarding financial stability are encouraged to develop voluntary specific cooperation agreements. Third, possible improvements will be examined to facilitate information exchange and cooperation among authorities and to enhance the tools that are necessary in preserving cross-border financial stability.
Formal adoption of the outcome of the meeting shall take place at the next Ecofin Council meeting in October.

Improving cross-border post-trading arrangements in Europe
Ministers and Governors reviewed the state of play of the ongoing initiatives to improve efficiency, integration and safety and soundness of post trading arrangements in Europe, reinforcing its significance in making a single European securities market a reality.

Some progress has already been achieved in certain key areas, namely by the implementation of the industry Code of Conduct on clearing and settlement signed in November 2006.

Ministers and Governors have also been informed on the developments with regard to the European Central Bank's initiative to set up TARGET2-Securities; the work on dismantling the fiscal and legal barriers to securities market integration (the Giovannini barriers); and also the efforts of the European System of Central Banks and the Committee of European Securities Regulators to promote the safety and soundness of European post trading arrangements.

Ministers welcomed the results already achieved but continued to stress the need for further substantial progress in this field to promote an efficient European market infrastructure for clearing and settlement of securities transactions.

International Monetary Fund governance issues

Ministers and Governors discussed the **reform** of quotas and voice of the IMF. The need to reach an agreement by the upcoming October Annual meetings of the IMF/ World Bank was underlined, as it will contribute to enhance the Fund's legitimacy. In this context, Ministers and Governors agreed on the need to increase the aggregate quotas share of more dynamic emerging economies. Specific aspects related to the second stage of the quotas revision orienting the EU common position have also been discussed.

The EU will continue to play an important role in contributing to find a consensus on these matters.

ANNEX

Porto, 14 September 2007

Informal ECOFIN Meeting

Statement by Ministers and Governors

We discussed the economic situation and financial market developments.

We are experiencing a period of volatility and re-appraisal of risk in global financial markets, triggered by difficulties in the subprime mortgage market in the United States.

However, macro economic fundamentals in the EU are strong. World growth is robust, with sustained dynamism in emerging economies and in Europe expected to continue to balance the slowdown in the US. Healthy corporate profitability and continued improvement of labour market conditions should provide on-going support to domestic demand. After several years of high profitability in a financial environment of historically low credit spreads, our financial institutions are sound and resilient and can weather the current episode of financial-market volatility.

Looking ahead, the current financial market volatility and its possible implications for global credit conditions imply heightened uncertainties and downside risks to the outlook for economic growth. Nevertheless, going forward, most projections see euro area real GDP growth in the second half of 2007 and in 2008 as being in line with potential growth. We are, in cooperation with supervisory authorities, monitoring closely developments in financial markets and the economy.

We also discussed preliminary lessons to be drawn from recent financial-market volatility. Our regulatory and supervisory rules are sound, and the Capital Requirement Directive now being implemented as well as on-going work on Solvency II Directive, should reinforce our framework further. Financial innovation enhances market efficiency but also raises obvious challenges to the regulatory and supervisory authorities. In this context, we asked the EFC to review alongside our international partners how to further improve transparency of complex financial instruments, of institutions and vehicles as well as how to improve valuation processes, risk management and liquidity stress testing. They will also take a closer look at the role of rating agencies in structured finance.