As prepared for delivery

Europe—The Path to Sustainable Economic Growth
Global Forum on Spain: From Stability to Growth

By Christine Lagarde
Managing Director, International Monetary Fund
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Good morning. It is a great pleasure to be here in Bilbao—a city of art, industry, and innovation. And home to the world renowned Guggenheim museum, which I had the pleasure to tour last night.

I am delighted to be here today, and I would like to especially thank my hosts—His Majesty the King of Spain, **Juan Carlos—Luis de Guindos**, Minister of Economy and Competitiveness, **Iñaki Azcuna,** Mayor of Bilbao, and *Lehendakari* **Íñigo Urkullu**.

Bilbao is perhaps the best example of how a region has risen to the challenge of economic adversities by changing and adapting itself. Through a series of ambitious and well-designed reforms, Bilbao has risen to become a world class model for efficient and successful urban transformation.

In many ways, this is also the story of Europe—and Spain—during the crisis. Indeed, the global financial crisis challenged many of our core economic models and policy frameworks, and raised the spectre of catastrophic outcomes for Europe. Radical solutions and ambitious reforms were needed.

Thanks to the formidable actions over the past five years, Europe—and Spain—are now turning the corner. Yet the task is far from finished. Growth remains too low and unemployment too high for us to declare victory on the crisis.

In this context, I would like to speak about two main themes:

- Where we stand on moving away from the crisis in Europe—and the next steps needed to lay the foundations for strong and sustainable growth and job creation; and in turn:

- Where Spain stands in moving out of the crisis—and key next steps to ensure those considerable efforts bear a fruitful harvest.

A Roadmap for Growth and Jobs in Europe

Let me start with Europe. The Euro Area is finally emerging from a deep recession. Momentum in domestic and external demands is growing, and financial conditions have eased somewhat. Our projections in January place growth in the Euro Area at 1 percent in 2014 and 1.4 percent in 2015. This is good news.

Yet in many countries, unemployment is still unacceptably high, especially among young people—1 in every 4 Europeans under the age of 25 looking for a job cannot find one.

High debt levels continue to hold momentum back, and financial fragmentation persists. In addition, the risk of prolonged low inflation—inflation substantially below the ECB's price stability objective of 2 percent—is also looming and could derail the recovery.

So what does Europe need to attain a trajectory of strong and sustainable growth and job creation? We see three key priorities.

First: ***strengthen the architecture of the monetary union.*** This means completing banking union and repairing bank balance sheets.

Why is this so important? A more complete *banking union* is essential to reduce financial fragmentation and sever the link between banks and sovereigns that has been so destructive.

While some important progress has been made in this area, there is more to do to help deliver timely and efficient resolution. An effective common backstop is also needed.

By the same token, restoring bank health is essential for credit and investment to recover. Here, the work by the ECB on the forthcoming *asset quality review* (AQR) and stress tests is ambitious but appropriate. It is a complicated exercise, so good communication and implementation are important.

The second priority is to ***sustain demand through monetary and fiscal policies***.

The ECB has already taken a number of strong measures to help the Euro Area. Even further accommodative policies and targeted measures are needed to address low, below-target inflation and achieve lasting growth and jobs.

In terms of the fiscal stance planned for the euro area for 2014, we believe it is broadly appropriate—but it must be complemented at the national level with credible medium-term frameworks, and appropriately paced consolidation.

The third priority is to continue ***advancing product and labor reforms,*** which can make a significant contribution in unleashing productivity and restoring competitiveness. Simpler tax systems, streamlined procedures for entry and exit of firms, and stronger national insolvency regimes—all of these can help release investment and increase employment.

In sum, the challenge now for European leaders is to accelerate reforms that would set the stage for a more robust monetary union—one that is able to sustain higher growth and more jobs.

A Roadmap for Growth and Jobs in Spain

Let me now turn to Spain. Here again, there is both good news—and news that could be better. First, the good news.

Spain has turned the corner. Growth has resumed in the second half of 2013 after more than 2 years. Unemployment and employment are now gradually improving.

Financial and economic conditions have improved significantly. In fact, Spain's exports have grown faster than Germany's since the crisis—helping to post a current account surplus for the first time in 20 years. Indeed, even if the weak economy played a role in it, the fact remains that it is one of the largest current account improvements by a major advanced country without an exchange rate depreciation.

Spain's reform package

Much of the credit for this turnaround goes to the bold and broad-based reforms that Spain has embarked upon since the onset of the crisis. The reform package focused on three key pillars.

The first pillar is the *financial sector program*. This program was key in restoring the health of Spanish banks.

It transparently assessed bank recapitalization needs; it forced them to fill their shortfalls, including through a €100 billion credit line from Europe; and it strengthened financial regulation to ensure that institutions, such as *cajas*, can no longer operate unchecked.

The second pillar of the package is *labor market reform*. The crisis brought to the fore long standing problems in the Spanish labor market. The 2012 labor reform package was a major step forward, helping employment recover even as the economy has just started to expand.

The third and final pillar of the package is *fiscal reform*. The budget had swung from a surplus in 2007 to a huge deficit in 2009. In response, a range of difficult measures, along with stronger control on regional finances, have allowed the fiscal position to improve appreciably—despite the recession.

I fully appreciate that this reform package was difficult to implement. It took a great deal of resilience and determination on the part of the Spanish people. But clearly, this set of mutually reinforcing reforms is now paying off— in terms of improved confidence, higher competitiveness, and critically, more jobs and growth.

Outstanding agenda

Yet, as is the case for Europe, so too in Spain—the scars of the crisis run deep and will take years to heal.

Perhaps the single most striking scar is that of unemployment. The crisis pushed up unemployment from 8 percent in 2007 to 26 percent in 2013.

Almost 6 million people who would like to have a job do not have one. Half of these—3 million—have been out of work for more than a year. And every day that goes by without a job erodes their chance of getting a job in the future.

It is also deeply distressing that unemployment among young people is well above 50 percent. There is nothing worse for young entrants to the labor market than to have their dreams and potential sapped by the blight of unemployment. A long spell of unemployment during one's youth leaves long-lasting personal, social and economic scars, including a reduction in life-time earning.

Priorities going forward

So what does Spain need to do so it too can embark on a trajectory of permanently higher growth and employment?

I am here reminded by President Rajoy who said: "*Spain is out of recession but not out of the crisis….The task now is to achieve a vigorous recovery that allows us to create jobs*."

I fully agree—creating jobs must be the overriding focus for Spain.

What does this mean in practical terms? It means there can be *no let-up in the reform momentum*. The strong reform momentum must be maintained. And we can see three key areas where further progress will be crucial.

The first area is ***labor market reforms*—**which need to be deepened so that they can work for all.

Both firms and their workers need to be assured that they can reach appropriate agreements on working conditions and wages. This is essential for jobs to be protected and created.

Workers need to be directly supported as well—through enhanced skills training and job-search assistance for the unemployed. And by further cutting the tax costs of employing people, especially the low-paid, the unemployed would face fewer barriers in finding work. The second area concerns ***debt***—which needs to be lowered.

For firms, this means helping insolvent but viable ones restructure their debts, so they can stay in business and continue to invest and hire people.

For the government, it means continuing to reduce the fiscal deficit in a gradual, growth-friendly way—especially by relying more on indirect taxes.

The third and final area is the ***business environment***—which needs to be strengthened.

Making it easier for businesses to start up and grow will lift their capacity to create employment. Making domestic firms more competitive will also boost their employment and productivity.

The government's plans to liberalize professional services and promote free trade among Spain's regions go very much in this direction.

Conclusion

There is no doubt that the reforms that I outlined for Europe and for Spain will take several years of determined efforts by both government and society.

Yet, Don Quixote once said: "*Diligence is the mother of good fortune*." And who am I to argue with Cervantes?!

And just as Bilbao transformed itself through "25 projects in 25 years", the imperative for both Spain and Europe today is to recommit to their ambitious reform agenda. It is our collective responsibility—not only to restore strong growth, but to put millions of people back to work.

Thank you.