

Address by the Taoiseach, Mr Enda Kenny TD, to the Konrad Adenauer Stiftung

Berlin, 16 November 2011

Introduction

I am delighted to be in Berlin today on my first official visit to Germany as Taoiseach. This Foundation, with which I have had a long relationship, has a long history of championing the universal values of freedom, peace and justice. I applaud you for your international activities in promoting our shared values.

You are rightly proud to bear the name of Konrad Adenauer, one of the towering figures of post-war European politics. As the first Chancellor of the Federal Republic of Germany, he was part of a generation of leaders who laid the groundwork for the united Europe.

That example of our forerunners, who rebuilt a ruined continent, must be a source of inspiration and strength to today's European leaders as we grapple with the great challenges of our times. We ought to remember that Adenauer and his contemporaries had both the vision and the courage to create a better Europe for future generations in times that were far more challenging than those we live in today. Surely we cannot fail in the urgent task of building on that courage today.

Minister Schauble

It is a particular pleasure to be here with Wolfgang Schäuble and I thank him for his warm words of welcome.

As Finance Minister of your country, he has played a pivotal role these past two years in the handling of this unprecedented financial and economic crisis. More than twenty years ago, he was an important architect of German reunification. Today, he is one of the architects of the stronger more stable Euro and the more competitive Europe to which we all aspire.

For our part, we regard him also as a good friend to Ireland, someone with whom we have cooperated closely over many years. We deeply appreciate your continuing strong support for our efforts to deal with the economic challenges we face today.

Ireland and the European Union

This afternoon, I want to speak to you about the two matters that are at top of my government's agenda. Ireland's economic recovery, and then to share some ideas about the challenges facing our European project.

I will share with you my view of Ireland's current economic situation, the recovery that is well under way and our expectations for the future. Second, I want to offer an Irish perspective on the future of Europe as we set about the essential task of reinforcing the Euro Zone.

Ireland's crisis and road to recovery

Ireland's recent story has been an immensely difficult one. In the fifteen years prior to 2008, Ireland enjoyed a period of unprecedented economic growth. But troubled times came quickly. During the latter stages of those boom years too many resources were devoted to our property sector. Irish banks borrowed euros freely from other European markets and made foolish lending decisions into a property bubble, which in turn became a source of tax revenue for foolish public spending commitments.

The global economic and financial crisis unleashed in 2008 hit Ireland like a tidal wave. Property prices collapsed, output shrank, unemployment sky-rocketed and our Government finances went sharply into deficit. Confidence drained out of Irish banks, leading to taxpayer guarantees and then large bail-outs.

The cost to Irish taxpayers of rescuing our banks and their creditors from their mistakes – for the benefit of financial stability – has been simply enormous – not far off 50% of GDP by some estimates. Were it not for this cost, Irish public debt levels would still be well below the EU average, and our situation would be entirely manageable.

But under the weight of these costs, by November 2009 the previous Irish Government was forced to seek support from the EU and the IMF. That marked a very dark hour for the Irish nation.

We were fortunate in having supports available from our friends, in Europe and IMF, who made funding available to us to allow us the time and space to recover and to get back on track.

Ladies and Gentlemen, the Irish people are a proud people. We work hard. We want to pay our way. We are grateful for the support of our partners in our hour of difficulty, but we want to get back to standing on our own feet as quickly as possible.

We are working our way through our EU/IMF Programme. We will implement it on time and in full. We have done everything required to restore confidence and growth to our economy, and we will continue to do so.

There is no higher priority for the new Government elected in March.

This will be a long difficult road, but my Government has made a start. We have rationalised the financial sector, cutting the number of banks and forcing them to sell overseas assets in order to concentrate on the domestic economy. We have put in place new job creation incentives, with a particular focus on our tourism sector and inward investment. We have cut pay- and non-pay costs across the public and private sectors. We have decided to sell state assets, including a stake on our national electricity utility. We have implemented a massive fiscal consolidation, amounting to almost 4% of GDP in one year.

Confidence is beginning to return. We now expect our economy to grow this year by just under 1% and we see good export growth prospects for the coming years. After significant reversals during 2008 and 2009, Ireland's exports went up last year by a very healthy 9% due to tangible improvements in our national competitiveness.

However, Ireland remains very vulnerable to setbacks. The current weakness of the global economy is a worry for export-oriented Ireland, as it is for Germany, Europe's export champion. Consumer confidence remains fragile as we cut services and raise taxes. Weighed down by legacy bank bail-out costs, the State's debt levels will remain at very high levels for some years, leaving our economy vulnerable to swings in financial market confidence.

So we need our friends and partners in Europe, especially here in Germany, to continue to work with us and to lend practical support and encouragement. But I can make this promise to you. Put your trust in us and we will not let you down.

The story of Ireland's recent economic ties with Germany is a very positive one. So far this year, our exports to Germany have grown by 8% compared with last year, but this is not a one-way process. German exports to Ireland are up 14%, although Ireland still enjoys a healthy trade surplus with Germany, something not many other EU countries have managed to achieve. German companies are the second most important foreign investors in Ireland after the United States. Irish companies are also investing in Germany. This year, Germans have been visiting Ireland in increased numbers, drawn by our traditional attractions and the fact that falling prices have made Ireland a more competitive tourism destination.

Our strong export performance means that Ireland's balance of payments with the rest of the world moved into surplus last year for the first time in more than a decade.

A top priority for my Government is to continue to work with our people to put our public finances back on to a sustainable footing by getting the country back to work. This was the mandate our Government received in the recent elections.

Earlier this month we set out our medium-term fiscal strategy for the period 2012 – 2015, which specifies how we propose to bring our deficit down to under 3% of GDP by 2015. We

are already about two-thirds of the way through a massive €30 billion deficit reduction plan, equivalent to almost one-quarter of our entire national income.

My Government will deliver its first Budget on December 6 designed to reduce the deficit further in 2012 in line with our Programme targets.

The scale of fiscal austerity has meant a very painful adjustment for our people, too many of whom are unemployed or having leave the country to find work.

The adjustment programme has also meant deep cuts affecting public services, social security payments and entitlements. We have reduced the salaries of public servants twice. We went so far as to hold a referendum to enable us to reduce pay for judges without threatening their independence. We also legislated earlier this year to raise our state pension age to 66 in 2014, 67 in 2021 and 68 in 2028.

My Government last week set out its investment framework for the next four years. In cutting our cloth to suit our measure – spending only what we can afford and what we can justify – we have focussed our resources on our top priority-investment that can generate jobs and growth.

We have also undertaken far-reaching measures to resolve the problems in our banking sector that have been at the heart of Ireland's difficulties. We have dealt with the exceptionally difficult situation in our banks at tremendous cost. We commissioned the most rigorous external independent stress tests, the results of which were published in March, and our banks are now capitalised accordingly. As a result, our banks do not need any further capital to meet the requirement for 9% core tier 1 capital agreed by the European Council last month. They are already capitalised to a significantly higher degree.

And the private sector is beginning to show its confidence in what we have done.

Bank of Ireland, one of our national pillar banks, has successfully raised €1.7 billion in private sector investment and our banks have accessed approximately €5.6 billion of wholesale funding from international market participants. And this is done in the most difficult of international circumstances.

Hard decisions have been taken and there are more to come as we continue on this difficult but necessary road to full economic recovery. The Government I have the privilege to lead is absolutely determined to steer Ireland back to where we agree we need to be: –

An Ireland that can stand on its own feet;

An Ireland that has a balanced budget;

An Ireland that can borrow on the international financial markets at rates that reflect investor confidence in us;

and, most importantly, an Ireland with a competitive economy capable of providing productive employment opportunities for our people.

In short, Ireland is delivering on its commitments to the international community. The latest Troika confirms that we are on track to meet our targets for this year. Our spending and revenue returns for this year are on target. We have successfully curtailed expenditure and increased government revenues. Our Government is delivering the adjustments that are needed to fulfil our promises to our partners and to the IMF.

As evidenced by the improvements we have seen in market sentiment towards Ireland, it is clear that the policies we are pursuing are now bearing fruit. Our story of crisis and recovery is increasingly of interest across Europe. We understand that our partners are looking to Ireland to provide evidence that European solidarity can be effective. It is helping us to restore solidity to our economy but we have a long way to go. But we are determined to complete our journey from crisis to full recovery. We appreciate the support of partners, including Germany, for the solidarity they have shown, including in agreeing to reduce the interest rates attaching to our loans from the EFSF and the EFSM.

These are very welcome steps and will make a significant contribution to getting us back on track. But continuing support – including in dealing with some of the legacy issues we face on banking -will not just be welcome, it will be vital.

And let me say here that I found a very supportive listening ear when I met with the Chancellor earlier today.

We rely, of course, on stability in the Euro Zone and on a stable global economy that can sustain our continued export growth.

Ireland in Europe and the European Way

Doing things together is what makes sense of the Union. It is what our citizens understand and want. Working together brings us closer and strengthens the ties that bind us. No matter how much dialogue and debate we engage in, the key to our future is acting together and in solidarity.

The greatest possible contribution the European Union can make to Ireland's recovery, and to that of other Member States in difficulty, is to restore confidence and stability - to our politics, our economy and our currency.

We greatly appreciate the deep German commitment to Europe. I am of course aware of the difficult internal discussions in this country about the crisis in the Euro Zone. In our different ways, all EU countries are being confronted with very challenging times.

With the notable German exception, our economies have struggled for the past few years.

The issues we face are complex and our people are understandably perplexed by the cost of measures that have had to be taken to stabilise the Euro Zone and rescue our banks.

In Ireland as in Germany, we are fortunate to enjoy a broad political consensus on EU issues.

At least 80% of our national parliamentarians are firmly convinced that Ireland's future lies in being part of a dynamic European Union capable of serving the interests of our people in the years and decades ahead.

European Union: Challenges

Although I am less than nine months in office, I have already participated in a considerable number of European Council and Euro summit meetings. I have seen how very difficult the issues we must confront are for all of us, and how high the political stakes can be. None of us – from the leader of the smallest Member State to the largest - is in an easy position.

We need to pull together so that we do not drift apart.

In a very real sense, we are in this together – we need to rebuild the deep sense of shared purpose and common endeavour that built the Union and that brought us this far.

First, we must take the steps necessary overcome the immediate crisis; and second we must put measures in place to ensure the euro is strong and robust for the next generation of young Europeans.

We have already done a great deal, including in the agreement we reached in October. Having taken difficult decisions, now, we must avoid a situation where the process of implementation rows us backwards. We need to keep our eye on the real target, which is to bring stability back to the Eurozone, and to do that urgently.

Implementing the October deal – in good faith and in full - will help return Greece to sustainability; underpin our banks; and limit contagion. Failure to do so will leave the markets unconvinced and the future uncertain.

Preventing contagion is a critical concern for Ireland. Like other successful currency areas, the eurozone must have the capability to deploy over-whelming financial firepower to support those members pursuing sustainable economic policies. It remains my personal view, that in the current environment only the ECB can provide the necessary firewall against financial market panic. I recognise that not everyone sees the ECB role in that way. But I believe that promoting financial stability and combating inflation are not inconsistent goals.

But we also need to look to future. The European Council has asked President Van Rompuy to examine what needs to be done - including the possibility of limited Treaty change – and to report back in December. I believe that President Van Rompuy is eminently well placed to judge how best to proceed on such a sensitive matter. I await the outcome of his work with great interest.

It is very clear to me that we need to do more if we are to re-establish the credibility of the euro and the arrangements that underpin it. A shared currency brings with it shared obligations and responsibilities that cannot be shirked.

We strongly support measures designed to reinforce the Euro Zone and improve its functioning for the future.

Ireland wants to be centrally involved in this work - a stable and strong euro is something that is of immense value us, and we will not be found wanting in this regard.

Yes, the times we live in demand that we continue to push out the boundaries of what is possible, consistent with our national responsibilities and those of our Parliaments. We in Ireland have committed ourselves to putting in place a legislative debt brake and are comfortable with closer budgetary scrutiny.

I say this for a number of reasons, not least the urgent need to move beyond the current crisis.

A process of Treaty change, however limited, cannot be brought about overnight. For good and democratic reasons, we have put checks and balances in the Treaties that mean that it takes time to change them. The process involves all 27 Member States and, in the normal run of things, the participation of the Union's institutions and of our national parliaments.

In our view, we should work to maximise the effectiveness of the instruments available to us under the current treaties. This includes new instruments such as the European Semester and the "six pack". Properly applied these can make a real difference. I believe our actions at this critical juncture should be pragmatic, and that, in seeking to put in place the best possible arrangements, we should concentrate on what we can do now, and we should do it with the greatest possible commitment and conviction.

From past experience, we, in Ireland, are naturally wary about the process of treaty change.

We have considerable experience in Ireland of the democratic challenge treaty change and referenda can generate. But we certainly understand the arguments that others have put forth. We look forward to constructively engaging with the proposals that President van Rompuy is expected to produce prior to the December European Council.

The Irish and German economies have much in common. But Ireland is not Germany. We are a small island economy on the edge of Europe. We will therefore need to follow somewhat different strategies to those of larger countries located at the geographic and demographic heart of our continent.

Ireland is not a low tax country by OECD standards.

Given the scale of fiscal correction required in Ireland, tax increases have played, and will continue to play, a significant part in repairing our public finances. We have increased income taxes, have introduced a carbon tax and are committed to introducing a property tax.

Member States must continue to have flexibility to implement tax policies which are suited to their wider economic, societal and geographic circumstances.

Ireland is a small open economy with a heavy concentration of foreign direct investment. Certainty around our low rate of corporation tax is critical to supporting our economic recovery and employment growth, and our ability to work our way of our difficulties.

Ireland's corporate tax regime is simple and transparent, in

marked contrast to the complex arrangements in some Member States, involving special allowances and exemptions.

The OECD and others have pointed to these features in a highly positive way. Any move to force harmonisation of corporation taxes would damage Ireland's ability to attract foreign direct investment and hence our ability to 'grow our way' to economic recovery.

That is why there is clear cross-party support in Ireland for retention of our current corporate tax regime, as a necessary instrument of growth and recovery.

In our efforts to stabilise the Eurozone, let us not forget what the common currency is for. It is not an end in itself.

It is a tool that makes it possible for our businesses to operate across borders, with greater certainty and ease. It makes it easier for our citizens to compare the value at home and in other Member States. It helps to drive competitiveness. It facilitates travel, with all of the social and the economic benefits that brings. It is also, of course, an economic expression of our political union.

To seek to unravel the euro is to seek to unravel the Union.

I am committed to protecting the Euro. I do not support inner or outer circles, or faster and slower streams.

We are a Union. Our strength is in what we are and in what we do together.

Deepening the single market. Generating jobs and growth. Building a better future for all of our people.

Ladies and Gentlemen, I came here today to tell a positive story about Ireland. But I do not want to create the impression that the advances came easily or that our quest for recovery has already come to a successful conclusion. This is not the case. I want to pay tribute to the Irish people for the huge sacrifices they have made and will continue to be asked to make as we work our way to full economic recovery.

Friends, Konrad Adenauer helped to engineer the post-war German economic miracle. The years since Adenauer came to office have also witnessed a political miracle, in our part of Europe at least. The European Union has justly been described as the greatest peace process in history. The political transformation it has brought about testifies to what can be achieved when we pool our resources and work together. We should never take that achievement for granted. But we also need to move on.

Today's Europe is a very different place. The fundamental issue of our time is: can the European Union provide the answer to the questions posed by today's changed circumstances? Can we strengthen the Euro so that it can underpin Europe's future prosperity? Can the European Union contribute to the evolution of an international system in keeping with our values and interests? Can we combine an internationally competitive economy with the maintenance of Europe's cherished social model? For me, for the Irish people, there is only one answer to these questions: a resounding Yes.

Failure to answer these questions positively would represent a failure of our leadership and a betrayal of the enormous achievements of the past 60 years. Ireland wants to face the future as a prosperous, self-confident society firmly anchored in a dynamic, fully effective European Union.

The achievement of economic recovery represents the indispensable first step towards realising that great ambition.

Thank you