

# Yves Mersch: Are the economy and monetary policy at a turning point – and where are the European and US economies headed?



**EUROPEAN CENTRAL BANK**  
**EUROSYSTEM**

## **Speech by Yves Mersch, Member of the Executive Board of the ECB, Panel at the Petersberger Sommerdialog, Königswinter, 30 June 2018**

### **Economic outlook**

The euro area economy is still growing, albeit at a slightly slower pace.

Euro area growth stood at 0.4% in the first quarter, following growth of 0.7% in the previous four quarters. This moderation reflects some pull-back from last year's exceptionally strong growth as well as some temporary and supply side factors. At the same time, concerns about increasing trade protectionism may have dampened business sentiment and expectations.

Nevertheless, the underlying strength of the euro area economy persists. It has now been growing above potential for 21 quarters. Both the non-accelerating inflation rate of unemployment (NAIRU) and the output gap are in positive territory and sentiment indicators – while weaker – are still above long-term averages for most sectors and countries.

The monetary policy measures introduced since 2014 have played a central role in supporting euro area growth and employment.

In the euro area, there are now around 8.4 million more people employed than during the trough in mid-2013, which implies that all of the jobs lost during the crisis have been recovered. Furthermore, unemployment is at its lowest level since December 2008, despite an increase in the labour force of more than 2%.

Private consumption continues to be supported by these favourable labour market developments as well as by the solid growth in households' disposable incomes, higher asset values and an accommodative monetary policy that has contributed to a lower debt burden for borrowers. Looking ahead, private consumption growth is expected to remain favourable as anticipated improvements in the labour market should support consumer confidence.

The business investment outlook continues to strengthen and is supported by the favourable financing conditions, an improvement in profitability and solid demand.

The euro area fiscal stance is expected to be expansionary in 2018 and should be broadly neutral in 2019-20, in order to avoid procyclicality.

In addition the broad-based expansion in global demand is expected to continue, which should support euro area exports.

More specifically, in the United States growth remained robust, expanding at an annual rate of 2.0% in the first quarter of 2018, having increased by 2.9% in the fourth quarter of 2017. Growth in 2017 marked the eighth successive year of positive growth in the United States, compared with four consecutive years of positive growth in the euro area. Looking ahead, growth in the United States is expected to accelerate on the back of solid growth in investment and consumption and significant fiscal stimulus. At the same time, we have to keep an eye on a gradual increase in long-term interest rates in the United States, given the robust economic growth, an expansive deficit funded fiscal policy, and the Federal Reserve's exit from the securities markets.

This ongoing broad-based economic growth is largely echoed in the June 2018 Eurosystem staff macroeconomic projections for the euro area. Real GDP is projected to increase by 2.1% in 2018, 1.9% in 2019 and 1.7% in 2020.

While risks to growth remain broadly balanced, those related to global factors, including the threat of increased protectionism have become more prominent. Moreover, the risk of persistently high financial market volatility warrants monitoring.

Turning to the nominal side, euro area annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), increased to an estimated 2% in June, from 1.9% in May. On the basis of current futures prices for oil, headline inflation is expected to remain around the current level for the remainder of the year.

Measures of underlying inflation remain generally muted, but are higher than the low range that prevailed between mid-2014 and mid-2016. Developments in

domestic pipeline inflation and wages suggest strengthening price pressures. A continued strengthening in domestic cost pressures is expected to be the main driver behind the expected pick-up in underlying inflation towards the end of this year and the further gradual increase over the medium term.

This assessment of inflation is broadly in line with the June 2018 Eurosystem staff macroeconomic projections for the euro area, which project annual HICP inflation of 1.7% in 2018, 2019 and 2020.

This outlook depends on keeping the ample degree of monetary policy stimulus in place, as this remains necessary for underlying inflation pressures to continue to build up and be maintained over the medium term.

In October 2017, the ECB Governing Council announced the reduction of its asset purchase programme by half, having announced in December 2016 that it would be scaled back from €80 billion to €60 billion. We gave up our easing bias in the spring and at the June meeting the Governing Council concluded that progress towards a sustained adjustment in inflation had been substantial and decided to halve net purchases again and to end them completely in December 2018.

With longer-term inflation expectations well anchored, the underlying strength of the euro area economy and the continuing ample degree of monetary accommodation provide grounds to be confident that the sustained convergence of inflation towards our aim will continue in the period ahead, and will be maintained even after a gradual winding-down of our net asset purchases. Yet, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term.

Looking ahead, monetary policy will be firmly guided by the outlook for price stability and our stance will evolve in a data-dependent and time consistent manner. Step-by-step normalisation means that we anticipate the end of the net purchase programme in the short term, while only announcing our expectations with regard to interest rates over the medium term. The difference gives us an appropriate flexibility for our medium-term reaction function, i.e. we do not make any unconditional commitments regarding the long-term future due to the many unknowns and uncertain developments.

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## **[Celebrating the Customs Union: the world's largest trading bloc turns 50](#)**

Borne out of the landmark post-war agreements that paved the way for European integration, the [Customs Union opened for business in 1968](#). By abolishing customs tariffs for trade in goods within what is now the EU, the Customs Union marked the first decisive step towards the EU becoming the world's

largest trading bloc, with the 28 customs administrations of the EU acting as though they were one entity.

Over the past 50 years, the Customs Union has developed into a cornerstone of our Single Market, keeping EU borders safe and protecting our citizens from prohibited and dangerous goods such as weapons and drugs. It also facilitates an ever-growing portion of global trade: EU customs handled 16% of the world's commerce in 2017.

On 1 July 2018, exactly 50 years after the Customs Union was established, the Commission is organising events at airports and schools across the EU to raise awareness of this extraordinary achievement.

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"The Customs Union is a tremendous and unique accomplishment. It allows Europeans to reap the full benefits of the internal market, keeping trade flowing and consumers safe. I am grateful to the many thousands of people who have and continue to contribute to this European achievement over the past 50 years."*

### **How does the Customs Union work?**

The EU's Customs Union was first provided for in the Treaty of Rome and in 1968 it abolished the customs duties levied at the borders between members of the European Community. Today, it is a single trading area where all goods can circulate freely, whether produced in the EU or outside its borders. Duty on goods from outside the EU is generally paid when they first enter the EU. In this way, customs ensure that those duties are paid and the financial interests of the Union and its Member States are protected. Customs also prevent products from entering the Union that pose a risk to the safety or health of EU citizens; they stop goods that have been trafficked and smuggled or present a danger to the environment and European cultural heritage, or goods which undermine the financial interests of the EU and its Member States.

To ensure the smooth functioning of the single customs area, EU Member States use a common set of rules, with the so-called [Union Customs Code](#) as its cornerstone. This Code, upgraded in 2013 and applied since 2016, means that EU countries rely on the same rules and procedures for handling the import, export and transit of goods. This stimulates competition and trade, improves efficiency, raises quality, and lowers prices for consumers.

National customs authorities in all EU countries are primarily responsible for the extensive day-to-day operations of the Customs Union and cooperate between each other and with the Commission to make it work. At the same time, wider international cooperation is crucial to protect the interests of European citizens and European business worldwide. In this vein, the EU has signed more than 50 international agreements providing for customs cooperation and mutual administrative assistance with 80 countries outside the EU to support controls and enforcement and simplify and harmonise customs procedures, which in turn reduces the administrative burden and costs for European companies.

The Commission recently proposed a continued financial commitment of €950 million for customs programmes in the next EU budget. This money should help to increase cooperation and data exchange between customs authorities as well as supporting and training customs officials in their work. A new fund of €1.3 billion has also been included in the EU budget plans to help Member States purchase, maintain and replace state-of-the-art customs equipment.

**For more information**

[Factsheet](#)

More information on the Campaign celebrating 50 years of the Customs Union can be found [here](#)

More information on international trade can be found [here](#)

[Website of Commissioner Pierre Moscovici](#)

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## **Customs Union: The world's largest trading block turns 50**

The Customs Union is unique in the world. It is a foundation of the European Union and essential for the proper functioning of the Single Market. The Customs Union is a single trading area where all goods circulate freely, whether they're made in the EU or imported from beyond its borders. This means that there are no customs duties at the borders between EU countries. Duty on goods from outside the EU is generally paid when they first enter the EU. From then on, there's nothing more to pay and no more checks. National customs services in all EU countries work together as one to manage the day-to-day operations of the Customs Union. Member countries share one single system for handling the import, export and transit of goods.

The Customs Union comprises the 28 Member States of the EU, Monaco and British territories. Over 114,000 customs officers work around the clock at airports, border crossings, ports, inland customs offices or customs laboratories. The EU's customs administrations need to work closely to facilitate trade and protect the health and safety of all EU citizens.

**How does the EU's Custom Union help to protect and keep us safe?**

The aim of the Customs Union is to protect society at large while making sure that legitimate trade can flow easily. The Customs Union defends against international trafficking and smuggling, protects consumers against illegal and dangerous goods, and preserves the environment and European cultural

heritage as well as the financial interests of the EU and the Member States. In the EU, there are 90 state-of-the-art customs laboratories to carry out this job. Some labs specialise in certain types of analysis – for example, toy safety. When human senses are not enough to detect certain types of illegal goods, customs officers partner up with sniffer dogs which specialise in detecting illegal drugs, suspicious food, explosives or even large amounts of cash.

## HOW THE CUSTOMS UNION PROTECTS



### DRUGS AND CIGARETTES

- In 2016, EU customs seized almost 4.6 billion illegal cigarette and 298.9 tonnes of drugs in the EU.
- In **Spain**, for instance, law enforcement dismantled an organisation producing contraband tobacco products. In three of these operations, 15 persons were detained and more than 275 tonnes of tobacco products, valued at more than €20 million, were seized. Two types of machines were confiscated: for the manufacturing of the tobacco products and for drying the tobacco. Additionally, numerous sacks containing chemical substances used to fabricate the final product were also seized.
- In **Poland**, a tobacco sniffer-dog discovered 10.5 million cigarettes inside a sea-container at the container terminal of the Gdynia sea-port.
- On the west coast of **France**, 19 tonnes of cannabis resin were seized in a sailing ship. Three tonnes of cocaine were found in a maritime container. In addition, 120 000 doses of diazepam were seized.
- In **Spain**, a customs boat supported by a customs helicopter intercepted a sailing ship loaded with almost nine tonnes of hashish.
- In **Belgium**, customs seized 2 275 kilos of drugs which were smuggled through passenger traffic (by air) and 476kg by express consignments.



### WEAPONS

- Some 6,256 firearms were seized in the EU in 2016, along with more than 1 million pieces of ammunition and 1 520 pieces of explosives.
- Customs officials in **Belgium** were able to stop 126 pieces of weapons/ ammunition/ explosives from entering the EU. These weapons were being smuggled into the EU through air traffic or post.
- In **Spain**, 737 assault rifles and 72 grenade launchers, including chargers and instruction books were seized.



### FAKE AND DANGEROUS GOODS

- EU customs intercepted products suspected of violating intellectual property rights on more than 63 000 occasions. In 2016, more than 41 million articles were detained with an estimated value of nearly €672 million.
- **Estonian** customs seized almost 34,000 pieces of fake “Diesel” jeans in Muuga Port.
- **Greek** customs seized more than 1.3 million batteries, 537,000 packs of cigarettes and 24,300 wallets.
- There were almost 14 000 cases of goods presenting a risk for consumers in terms of health (sanitary, phyto-sanitary and veterinary technical standards). More than 37 million items were identified as unsafe or uncompliant in terms of product safety.



### GOODS VIOLATING ENVIRONMENTAL RULES

- 3,500 infringements of regulations for endangered species (CITES) were detected. In 96 cases, exports were detected which did not respect the rules on exports of cultural goods.
- **Estonian** customs seized almost 66,000 tubes of face cream which contained caviar.
- In **France**, 110,000 cosmetic products with caviar and protected plants were seized, as well as 46 square meters of alligator skin and 20 tonnes of wood from the exotic “*Dalbergia retusa*” species.
- In the **United Kingdom**, 300 map turtles (*Graptemys spp*), 5 live giant salamanders, 6 kg of caviar, 300 leather items made from python skin, 760 kg of traditional medicines containing protected plant species and 18 kg of ivory tusks were seized.



### UNDECLARED CASH

- Travelers entering or leaving the EU are obliged to declare amounts of cash valued at €10,000 or more (or its equivalent in other currencies or bearer negotiable instruments) to customs authorities. In 2016, there were 571 significant cases, where seizures of undeclared cash amounted to more than €50,000.
- Each year, more than 100,000 cash declarations are submitted to customs, amounting to more than €62 billion. Each year, more than 10,000 cases of undeclared cash or incorrectly completed cash declarations are recorded
- As part of the EU’s Action Plan against Terrorism financing, [recently-agreed new rules](#) will extend the rules to cover **cash sent in postal parcels or freight shipments, to prepaid cards and to precious commodities**.

### How does the EU’s Custom Union help to facilitate trade?

The EU is one of the largest trading blocks in the world. In 2015, the EU accounted for almost 15% of world trade in goods, worth €3.5 trillion. Managing this volume of international trade requires handling millions of customs declarations per year in a fast and efficient manner. The Union Customs Code removed the need for hundreds of different customs forms and now allows the use of electronic transport manifests for customs purposes and the moving of goods under temporary storage without lodging a transit declaration. It also introduced centralised clearance, and is more straightforward for businesses, providing uniform and harmonised rules on guarantees.

Finally, it also reduces the administrative burden on compliant and trustworthy economic operators (AEOs) by allowing a number of simplifications of customs procedures, and of the use of guarantees, and by allowing self-assessment of customs debts under certain conditions.

### **What has the Commission proposed to support customs operations as part of the new EU budget?**

As part of the plans for the next EU budget, the Commission has now proposed a continued financial commitment of €950 million for the EU's customs programme, representing just 0.07% of the entire budget. The programme supports the essential cooperation between customs authorities across the EU and protects the financial and economic interests of the European Union and its Member States. It has helped to build a modern and innovative Customs Union that ensures the safety and security of all EU citizens, while at the same time facilitating growing global trade. It allows the joint development and operation of major, pan-European IT systems and establishes networks, bringing together national officials from across Europe.

The new proposed **Customs Programme** [LINK] will build on this success, helping customs administrations to deal with increasing trade flows and emerging trends and technologies, such as e-commerce and blockchain. It will also support customs authorities through enhanced cooperation on the ground and more training. The programme will help to provide better risk management to protect the EU's financial interests and to respond to security threats and cross-border crime. A new Customs equipment instrument worth €1.3 billion is also being created to allow the purchase, maintenance and replacement of innovative customs equipment by Member States.

### **CUSTOMS UNION – TIMELINE AND KEY STEPS**

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| <b>1 July 1968</b> | All customs duties and restrictions lifted between the six member countries of the European Economic Community (EEC). A common customs tariff replaces national customs duties on products from the rest of the world. Trade between the countries multiplies and investment and economic growth increases. |
| <b>1987</b>        | One Single Administrative Document replaces hundreds of national customs declaration forms. At the same time, the common transit system is created.   |
| <b>1992</b>        | EU adopts the Community Customs Code, creating a common rulebook for customs legislation. This milestone leads to much simpler guidance for traders and customs alike.  |
| <b>1993</b>        | Free movement of goods become a reality: no more customs formalities at internal borders of the EU and no more long queues for lorries filled with goods to be checked at border crossings. For the first time, uniform customs legislation becomes directly applicable in all Member States of the EU.     |



- 1994** Launch of the integrated tariff of the European Union in digital format (TARIC) with daily transmissions to the EU Member States. It replaced the first TARIC database with weekly transmissions since 1987.
- 1996** EU-Turkey Customs Union enters into force.
- 2003** A new computerised transit system becomes operational. It is the first European customs system that uses electronic declaration and processing.
- 2004** 10 new countries join the EU and the EU Customs Union, marking the largest expansion of the EU Customs Union in its history.
- 2005** EU launches the Customs Risk Management system that connects more than 800 customs offices and provides a digital platform to exchange information about risks and irregularities. New security legislation is introduced providing for advance cargo information, risk-based controls and measures aimed at end-to-end supply chain security, including through use of technology.
- 2008** EU introduces the Authorised Economic Operator (AEO) status: an internationally-recognised quality mark indicating that a company's role in the international supply chain is secure, and that customs controls and procedures are efficient and compliant. It is voluntary and enables simplified customs procedures and in some cases the right to 'fast-track' shipments through some customs and safety and security procedures.
- 2011** Customs becomes a major actor for increased security in the EU. Common risk criteria for security and safety start to apply to all goods crossing the EU borders, ensuring equal protection of all EU citizens and member states.
- 2016** The Union Customs Code takes effect, further modernising and streamlining customs procedures throughout the EU. It also introduces a number of IT systems to support harmonised customs rules and to reduce the administrative burden for trade. Full implementation of IT systems is foreseen in steps, with the majority of systems being available by 31 December 2020, with further upgrades during the period up to 2025.
- 2018** The EU Customs Union celebrates 50 years of operation.

#### **For more information**

[Press release](#)

[50CU website](#)

[50CU videos playlist on YouTube](#)

One minute [video about the Customs Union](#)

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# Remarks by President Donald Tusk at the opening ceremony of the Austrian Presidency

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First of all, I would like to thank the Chancellor for his hospitality, and wish him all the best with Austria's EU presidency. There is a huge amount of work to be done and limited time. But I feel, we could not be in better hands.

Given its location, Austria has always been at the heart of Europe – a meeting point between east and west, south and north. Thanks to this central role, Austria has become an essential bridge builder in the EU, not just economically and culturally, but also politically. And I know that you, Sebastian, given your own experience and past, will have a great sense, in your heart as well as mind, of how to make this bridge building Presidency a success for all of Europe.

Austria's motto for its EU presidency is 'A Europe that protects'. You could not have chosen a better motto, in my opinion. The need for security, as old as humanity, manifested itself with all its force during the migration crisis. The people of Europe expect us – and they have done for a long time – to show determination in our actions to restore their sense of security and order. People want this, not because they have, all of a sudden, become xenophobic and want to put up walls against the rest of the world, but because it is the job of every political authority to enforce the law, to protect its territory and the border. As our summit in the past days has shown, we are all working hard to ensure that the very words 'European Union' are associated with stability, not instability; security, not a lack of security. Above all, we must be united in this effort. And here I am, of course, counting on you, Sebastian.

As a faithful reader of the works of your great compatriots such as Karl Popper and Friedrich August von Hayek. I would like to warn all those who look for order and security in the public life, not to do it at the cost of freedom. In the history of Europe and Austria, of Poland and Bulgaria, the road to security has all too often become the road to serfdom.

Finally, I am also pleased that the Presidency will focus on securing stability in Europe's neighbourhood. As the saying goes, a good neighbour is better than a distant friend. Especially today, when we do not have that many distant friends. Thanks to the efforts of Boyko, we have made good progress in strengthening the European perspective of the Western Balkans. I have no doubt that Austria will build on this legacy. Alles Gute!

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## **Palestine: EU police mission and EU border assistance mission extended for 12 months**

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