What way forward for the EU following the Covid crisis?

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We need a genuine "Savings and Investment Union" to help us out of the crisis and to boost European financial sovereignty

The Economic and Monetary Union (EMU) is a decisive achievement of the European integration that we all cherish. But this political project should be further developed, especially in the current context.

Thanks to the reform momentum that followed the Eurozone crisis, important milestones have been achieved to improve the EMU's resilience to economic shocks. As a response to the Covid crisis, we have made unprecedented steps towards deeper solidarity and integration. We have acted quickly and strongly to face the urgency of a crisis of unprecedented scale. As early as April, the Eurogroup has taken ambitious and innovative decisions. It has notably agreed on three safety nets, relying on the European Commission, the European Investment Bank and the European Stability Mechanism. On the monetary policy side, the European Central Bank has shown its determination and ability to deliver quick and efficient responses, by massively increasing its purchase programs and by considerably easing bank refinancing conditions. Finally, in July, the European Council has agreed on a historic recovery package that includes a common debt to finance the recovery and to face the green and digital transition of our economies. This package is the concrete expression of European solidarity to ensure that no region is left behind from the economic recovery.

While considerable progress has been made to reinforce the financial, fiscal and economic dimensions of the EMU, the Eurozone architecture remains incomplete and must move towards deeper integration. It is all the more important since recent forecasts have underlined that the different recovery prospects between Member States could deepen pre-existing diverging trends. To avoid further divergences between Member States, a centralized fiscal stabilization function could help improve the financing of the European economy by better allocating resources across jurisdictions. In parallel, we also need to advance on the completion of the Banking Union and the construction of a full-fledged savings and investment Union.

Indeed, it is high time we strengthen our financial markets so that they can play their financing role fully and diversify the funding sources for the European economy. Equity funding must be facilitated and financial flows should circulate more easily across the European domestic borders to serve the countries hardest hit by the crisis.

This is why the Capital markets Recovery Package the European Commission unveiled last July is a positive outcome. Still, we need to go further and set up a genuine savings and investment Union which will garner both individual savers and financial actors in the battle to fund the recovery.

To that end, we must take every step we can to channel equity into the real economy. Insurers and banks should be able to play their role of long term funders of the economy on the European market. The upcoming revision of Solvency II, which will contribute alleviating corporate solvency stress, and a transposition of Basel III avoiding any gold plating and adapted to the European reality will be key to further integrate the capital markets across the EU. At the same time, individual savers should be given new investment opportunities, in particular given the negative interest rate environment. We should, for instance, continue our efforts to develop pan-European funding vehicles, especially when it comes to employee share-ownership or private equity. Similarly, it is time to revamp the legal framework of the European long term investment fund (ELTIF) to make it more attractive.

Once we are able to mobilize private investors and retail savings as a complement to fiscal and monetary policies, we must make sure small and medium businesses can benefit from diversified sources of funding to strengthen their net position.

Finally, to build a strong and coherent "Savings and Investment Union", we need a convergent and enhanced supervision at the European level. Strengthening and deepening the Capital Markets Union is not only necessary to weather the current economic crisis, but it also turns out to be a leverage to ensure a genuine European sovereignty at a time when trade tensions are rising and the United Kingdom is leaving the EU.

Roberto Gualtieri

Minister of Economy and Finance, Italy

An opportunity Europe must not miss

In challenging times bold policy initiatives become feasible

In recent years, the process of deepening of the Economic and Monetary Union that was charted by the Five Presidents' Report back in 2015 was fraught with difficulties and a general lack of enthusiasm, if not outright disagreement. The European Union at large experienced political divisions and then the exit of a prominent Member State such as the UK. However, as the EU was losing momentum, global challenges mounted: from threats to multilateralism and 'trade wars' to the scourge of climate change and the spread of populism. These growing challenges reminded us of the importance of staying united and of the wisdom of the European 'project'.

Last year's political agreement on the new European Commission marked a long-overdue refocusing on social and environmental sustainability and on an integrated EU approach to climate change and innovation under the 'European Green Deal' banner. More recently, it was the Covid-19 epidemic to focus the minds and the hearts of European leaders on the need to forge a forceful response to an unprecedented and sudden stop in economic activity – a global shock that, given the disparity of initial conditions across EU Member States, might have irreparably compromised their economic and political equilibria. European institutions rose to the challenge: the European Central Bank succeeded at countering deflationary risks, stabilising the financial markets and reducing financial segmentation. Capitalising on prior work on proposals such as the unemployment fund and the reform support mechanism, the European Commission swiftly finalised a package comprising the SURE funding facility to mitigate unemployment risks and, most importantly, Next Generation EU (NGEU), also known as the Recovery Plan. In addition, Euro area countries agreed on a new credit line from the European Stability Mechanism, the Pandemic Crisis Support.

NGEU comprises 750 billion in loans and grants over the 2021-2026 period, for the first time leveraging the EU budget in order to finance reforms and investments in innovation, digitisation, environmental and social sustainability, as well as the quality and resilience of health services of Member States. The allocation keys of the program reflect pre-crisis unemployment and per-capita output levels. As a result, NGEU is not only an instrument to build a stronger and more sustainable European economy, but also a rebalancing mechanism that will make the EU more sustainable also from a social and political point of view.

This ambitious plan must be quickly finalised by EU institutions and leaders, and be ready for use in 2021. We must ensure that bureaucratic and political hurdles do not stifle the timely deployment of growth- and sustainability-enhancing investments and reforms. Disbursements from the EU budget should be made available to Member States as soon as milestones are fulfilled.

Furthermore, it is crucially important to align the whole EU framework with the goals of the Recovery plan. That includes fiscal rules, which not only need to be streamlined but also to be more conducive to growth, investment and rebalancing of the Union. Granted, the fiscal framework must preserve debt sustainability in the face of ageing of the population. Solid budgetary positions in good times are necessary to be able to respond forcefully to unexpected shocks like the current pandemic. At the same time, at this critical juncture we must prioritise the revitalisation of our economies and their convergence towards a more advanced and sustainable model. It would be a serious mistake to blunt the stimulus provided by the Recovery Plan with offsetting fiscal tightening. Furthermore, a growth-friendly fiscal policy stance will facilitate the implementation of a wide range of reforms that are necessary to make our economies more efficient, competitive and sustainable.

We must also complete the banking union and capital markets union. Compromises will be necessary to achieve these goals, but if all parties involved adopt a constructive approach, we will be able to fulfil the vision laid out by the Five Presidents and to move on to even more ambitious goals.

It is in challenging times that long-held red lines are called into question and new and daring policy initiatives become feasible. In Next Generation EU, we now have a program that can genuinely revitalize and deepen our Union and allow us to achieve higher levels of prosperity, innovation and environmental sustainability. It is an opportunity that Europe must not miss, and will have to build on over the coming years to complete the Economic and Monetary Union and to put Europe in a leadership position in global affairs.

Werner Hoyer

President, European Investment Bank (EIB)

The way out of the crisis: investing for a new, green, innovative Europe

We are in the midst not only of a global pandemic, but of the worst global economic crisis since the Great Depression. Despite some worrying local upsurges, there is hope that Europe has seen the worst of the pandemic, thanks to tremendous efforts. We cannot yet be so hopeful about the economic recovery. The impact is deep and economic uncertainty remains high. It will take tremendous European efforts to surmount this crisis. The EU bank is ready to play its role.

We should not expect the EU economy just to bounce back any time soon. We still don't know how the spread of the virus will evolve, or when a vaccine may eventually become available. We don't know what economic knock-on effects, like rising non-performing loans, may still prove disruptive. And we don't know whether anything will be quite the same again when it comes to how consumers behave.

Facing such enormous uncertainty, it is not surprising that European businesses have cut back on investment. Calculations by EIB economists suggest that this could be by as much as 30%. We cannot afford weak investment now. We cannot afford an economic lost decade when we face such enormous challenges as climate change, declining productivity growth and the need to digitalise the European economy. With the economic impacts hitting many people in low-paid service sector jobs the hardest, driving social exclusion, we cannot afford to pile even more burdens on European citizens.

European solidarity is now needed more than ever. As the EU bank, the EIB Group has been an integral part of the collective European response to this pandemic.

From the beginning, we have acted to ensure that finance is never the obstacle. We immediately made €6 billion available for investments in the healthcare sector such as medical infrastructure or research into vaccines and treatments. In July alone, we approved € 10.2 billion of new financing for the public health response to COVID-19, to adapt key public services and to help companies survive and invest. This includes €2 billion to Italy to reinforce Italy's healthcare system and € 1.5 billion to help local authorities in France to better respond to the pandemic, as well as support for the public sector response and businesses across Europe.

In just 3 months, we also developed a powerful pan-European instrument – the European Guarantee Fund – to help Europe's economic recovery in the coming period. As part of the overall EU COVID-19 response package, it will enable the EIB Group to provide up to €200 billion of additional financing for mostly SMEs, companies that are the life blood of our economies yet that face devastating, unprecedented challenges. Following guarantees by EU Member States the European Guarantee Fund is now operational.

In addition, we are part of Team Europe response to the challenge posed by the pandemic around the world. We have pledged to provide up to €6.7 billion in the coming months, supported by guarantees from the EU budget. This will both strengthen urgent health investment and accelerate long-standing support for private sector investment, reflecting financing needs in more than 100 countries around the world.

We have responded with the urgency required of the COVID-19 outbreak. But we also haven't – and mustn't – lose sight of the longer-term challenges we face: climate change, digitalisation, inclusion. This is another case where we must, as Europeans, say that we will do "Whatever it takes". Recovery is not enough; we have to invest in an innovative, inclusive and carbon-neutral Europe. What we need is a sustainable recovery.

Given the size of the challenge, public funds can only cover part of the total required! This is why we must structure our support in such a way that it 'crowds-in' as much private capital as possible. As the EU's Climate Bank we are well placed to help catalyse the kind of patient, targeted, risk-absorbing finance that our response to these structural challenges require. And we are ready to do more. ●

Jörg Kukies

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Enabling the financial sector to contribute to the economic recovery in Europe

The European Council's agreement on a recovery instrument and a new Multiannual Financial Framework (MFF) for the period 2021-2027 have been a major achievement during the first month of the German Presidency of the Council of the European Union. The heads of state and government of the 27 EU Member States have agreed on an overall package worth 1.8 trillion euros. Between 2021 and 2023, 750 billion euros of this sum is to be made available via a recovery instrument to address the adverse economic consequences of the COVID-19 crisis. Thereof, 390 billion euros will take the form of grants and 360 billion euros will be provided as loans.

During the next months, the German presidency of the Council will focus first on facilitating the legislative process for the acts needed to implement the agreement by the European Council. It is important to ensure a green and socially inclusive recovery, the digital transformation, including increasing the EU's competitiveness and strengthening its digital sovereignty.

In addition, we will have to plan beyond crisis management and identify where Europe needs to become more resilient and independent. We must think about ways to tie up some of the loose ends that have faded into the background somewhat while we have been focusing on the Covid-19 epidemic. This includes the work on the completion of the Banking Union and advancing the Capital Markets Union.

While the MFF and the recovery instrument will already provide a significant amount of public money to overcome the pandemic, the German Council presidency will also focus on the mobilisation of further resources via the financial markets. In this regard, it will be key to continue completing the Banking Union, with uniform rules for the European banking sector. A strengthened Banking Union that enables further market integration will facilitate the access to bank financing for consumers and small and medium-sized enterprises, as well as for corporates in Europe.

To enable a swift recovery of the European economy, we will also need to improve the access of companies to financing via the capital markets. Therefore, another key priority of our Presidency will be to ensure access to diversified funding sources and promote competitiveness of the EU financial sector. Short-term focus should be on measures providing direct benefits to investors and enterprises to overcome the economic consequences of the Covid-19 crisis.

We aim for council conclusions on the Commission's action plan on CMU, underlining the commitment of the member states. In the short term, we will take forward proposals for the Capital Markets Recovery Package and BMR tabled end of July, aiming for a political agreement by the end of this year. We are keen in working closely with the European Parliament to achieve quick results in order to assist the recovery of European economies from the Covid-19-crisis.

Our work will also focus on creating a secure environment for using digital technology more widely in the financial sector. This will also facilitate overcoming the crisis. Our key priority is to turn Europe into a modern, secure and innovative financial market union for tokenized financial services, to promote the Retail Payments Strategy as well as increasing cyber security and operational resilience of the European financial market.

Beyond the MFF and the recovery fund, the financial sector plays an important role in the economic recovery in Europe.

We aim at further improving the fight against money laundering and terrorism financing. We will especially focus on those areas which can be best addressed by a regulation. Additionally, we will look into the question how a future supervisory structure at EU level can contribute to ensuring better compliance throughout the common market.

Sustainable finance as a cross-cutting topic is of central importance for our presidency, especially in the fight against climate change. We will therefore promote the EU's leading role for sustainable investment. ●