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Q&A

A stronger Europe post COVID-19: economic and financial policy aspects

HOW TO ENSURE THAT THE NEXT GENERATION EU INSTRUMENT WILL FINANCE PROFITABLE PRODUCTIVE INVESTMENTS, EFFECTIVELY INCREASE THE SUSTAINABLE RECOVERY AND THE RESILIENCE OF EU ECONOMIES AND EVENTUALLY CONTRIBUTE TO THE REIMBURSEMENT OF EU FINANCINGS BORROWED BY THE EU COMMISSION?

Next Generation EU is very powerful in two specific ways.

First, with EUR 750 billion in addition to the EU's 1.1 trillion medium term budget, it is very significant in terms of amounts. Moreover, the EU will for the first time raise such a significant amount on the financial markets. That will have various positive effects. In addition to the direct effect of the additional investment, it clearly shows the determination of the EU to act in solidarity and reinforces the attractiveness of the euro as global currency.

Second, the focus of Next Generation EU is to make our economies fit for the future, while repairing the damage of the crisis. In particular, with the Recovery and Resilience Facility – the biggest instrument – the money will be used for investment and reforms that will make our economies more resilient, competitive and better prepared for the challenges posed in particular by the green and digital transitions.

To facilitate repayment, the Commission will propose new own resources. Examples mentioned include a carbon border adjustment mechanism, a digital levy and others. I know those will be sensitive debates. We have to take the time necessary to develop solid proposals that could eventually convince everybody about the advantages of taking a step forward also in that direction.

WHAT ARE THE MAIN IMPLICATIONS FOR THE FINANCIAL SECTOR OF GROWING PUBLIC INDEBTEDNESS IN SOME MEMBER STATES? HOW TO ENSURE AN EFFECTIVE AND VIABLE FISCAL FRAMEWORK IN THE MEDIUM TERM? WHEN SHOULD THE STABILITY AND GROWTH PACT BE RESTORED? DOES IT NEED RENOVATING? WHAT MEASURES WOULD FINALLY MAKE IT EFFECTIVE?

We are not in the same situation as a decade ago. Ever since the 2008 financial crisis, we have been working to rein in risk in the European banking sector. Currently banks are much better capitalized and capable of withstanding bigger shocks. Non-performing loan (NPL) levels have come down substantially, especially where they were very high. As a result, banks are now part of the solution.

Of course, the current crisis is testing us. Member States and the EU have taken sizeable measures to mitigate the immediate health impact, protect jobs and incomes of citizens, support companies, and manage the impact on the banking sector.

While this has helped to contain the rise of NPLs, more structural measures may be needed. History taught us that in order to successfully deal with NPLs, one needs speed and determination. We will pursue a comprehensive strategy, focused on a mix of complementary policy actions in bank regulation and supervision, reform of insolvency and debt recovery frameworks and development of secondary markets for distressed assets. Those measures will need to be taken both at the EU and Member State level.

Because of the economic support measures I previously mentioned, the pandemic will also entail a sharp increase in public debt across the continent. It was agreed to activate the general escape clause of the Stability and Growth Pact. The clause does not suspend the procedures of the Pact, but it gives Member States the flexibility needed to deal with the economic and social consequences of the pandemic, provided that medium-term fiscal sustainability is not endangered.

It is important to recall that this is part of a coordinated European strategy, whereby fiscal and monetary policy are fully in sync to steer our economies. In my view, this is the best way to allow our economies to rebound as quickly as possible. Together with the effective implementation of reforms, this will help the sustainability of public debt, which largely hinges on the growth potential of our economies.

The Commission will continue to apply the full flexibility within the EU fiscal rules for as long as necessary. At the same time, Member States will at some point need to gradually move back towards prudent fiscal positions and start reducing their debt levels. I am confident that we will be able to ensure a withdrawal of fiscal support when appropriate, in a gradual manner and taking into account each country's specific position.

The pandemic has delayed the discussion on the effectiveness of the EU fiscal framework, which was kicked-off by the Commission's review published in February but has not made it less relevant. We will resume our reflections once the immediate impact of this crisis is over, factoring in the lessons learned. I believe that we need an inclusive and open debate involving all stakeholders before we move on with concrete proposals. It is important that we arrive at a high degree of consensus, because ownership and trust are crucial for any framework to be effective.

IS ENSURING THE FINANCIAL SOVEREIGNTY/ INDEPENDENCE OF THE EU A RELEVANT OBJECTIVE IN THE CURRENT MACRO-ECONOMIC AND POLITICAL CONTEXT (E.G. BREXIT) AND IF SO WHAT DOES IT IMPLY IN TERMS OF PUBLIC POLICY?

Strengthening the financial sovereignty of the EU is all the more important in the current economic and geopolitical context. We can only achieve that by working on different fronts.

One important asset we have is the euro. The euro is already the second most widely used currency in the world in payments, international debt issuance and foreign exchange reserves. Around 60 countries either use the euro or link their currency to it. But there is further scope for the euro to achieve its full potential.

To make the single currency more attractive for international investors, we need large, liquid and deep domestic financial markets, underpinned by solid monetary, fiscal and regulatory policies. We need to start in Europe, making the euro area a rock-solid home for our currency. The actions we took in the context of the current crisis, which I just mentioned, will undoubtedly help. And we need to make further progress on the Capital Market Union and the Banking Union.

Also, sectoral measures to increase the use of the euro can help, for example by developing truly European digital payments systems, or by fostering the use of the euro in invoicing in the field of energy, commodity markets and the transport sector. The EU's trade policy can also play a relevant role.

Finally, we see that the EU's global leadership in new policies, such as the European Green Deal and sustainable finance, contribute to the global use of the euro. One example is the green bond market in euros. Since 2013, euro-denominated net green bond issuance has increased more than ten-fold, reaching more than EUR 100 billion in 2019. Importantly, the issuance of euro-denominated green bonds is also strong outside of the euro area: in 2019, almost 30% of all euro-denominated green bonds were issued by non-euro area issuers.

WHAT ARE THE KEY PRIORITIES OF THE CMU INITIATIVE GOING FORWARD AND WHAT ARE THE MAIN FACTORS OF SUCCESS?

We launched work on the Capital Markets Union (CMU) well before the current crisis. The pandemic has injected even more urgency for finishing CMU. Bank lending will not be able to cover all financing needs. The strength of the economic recovery and the path towards sustainable and inclusive growth will also depend on access to market financing. There is lots of money ready to be invested in the EU. There are also many companies with massive potential in the EU. We need to get the money to where it can help realize that huge potential. That is the job of CMU.

As the report by the High Level Forum on CMU points out, a fully-fledged CMU will be vital for mobilising much-needed investments in new technologies and infrastructure, as well as to tackle climate change. We have to complete CMU to deliver Europe's Green Deal and Digital Agenda. Public financing simply will not be enough. We need to get private capital from where it is now, to where it will do the most good – building a sustainable economy, creating new future-proof jobs and providing return for investors all the while.

In the new CMU action plan, which we intend to present in the coming months, we will set out the new vision for CMU through three key pillars: SME access to finance, market infrastructure, and measures to help savers in Europe to invest more through capital markets.

We have had successes in our approach to completing the CMU. But we will keep pushing onward until the promise of a truly single market for capital in the EU is realized, and the full potential of the money that EU citizens, businesses and others invest in our markets is unleashed to sustain an EU economy that works for people. ●