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An opportunity Europe must not miss

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. ●