REGULATORY UPDATE - BERLIN SEPTEMBER 2020
Policy note drafted by the Eurofi Secretariat

Conditions for relaunching investment and growth in the EU in the post Covid context?

Real Gross Domestic Product (GDP) growth and productivity gains in the euro area have failed to catch up with US, China and Japan over the past two decades.

In 2018, the EU invested EUR158 billion in climate change mitigation. At 1,2% of GDP this figure is marginally less than the United States (1,3%) and little over a third of China's performance (3,3% of GDP). Moreover, the Investment Report of the EIB (2019/2020) shows that the European Union is risking a gradual loss of global competitiveness with slow innovation, adoption of digital technologies and productivity growth. Europe has too few start-ups and scaleups, with the United States having four times as many per inhabitant as the European Union. As of the end of 2019, Europe was not home to any of the world's 10 largest internet companies and only one European company was in the worldwide digital top 20.

The Covid-19 pandemic and the induced global lockdown have caused a sharp slump in the global and EU economies. This crisis also threatens to worsen economic disparities across the EU. In such a context, the big fiscal deal is a welcome and significant step forward which should strengthen the European Union.

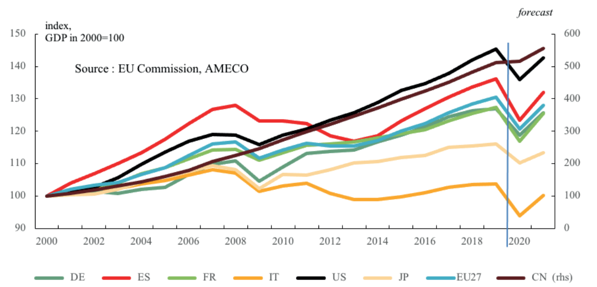
However, the game changer will remain national. Member States need to accelerate their homework and implement strong and credible domestic reforms in order to improve the business environment, the competitiveness of SMEs, facilitate the shift to renewable energies, promote digital services, education and skills and attract private investors.

1. The EU faces an investment and growth weakness

1.1. At the end of 2019, the EU and in particular the euro area had not recovered from the deep economic crisis compared with global competitors

Euro-area average annual GDP growth since 2014 has been 1,9%, while that of the United-States has been 2,4% (*see Chart 1*). The bulk of the lagging euro-area performance is attributable to Italy and France where the GDP has grown by 0,8% and 1,45% in average since 2014, respectively. Meanwhile central and eastern European countries 'growth rates have exceeded the EU average.

Chart 1 Real GDP growth, index



1.2. Productivity gains are much higher in the US, China and Japan than in the EU

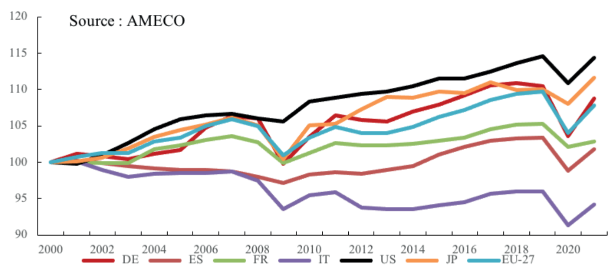
On productivity growth, Germany has been performing strongly over the past years, whereas productivity growth in other euro area countries such as France and Italy is well below that in China, Japan and the US (*see Chart 2*).

Looking at the past decades, there is a slowdown in productivity growth in Europe compared with previous decades, especially in France and Italy. This has led to higher potential growth in the United States than in the EU. It also explains the gap in the modernisation and innovation of companies. Indeed, productivity growth ultimately depends on the capacity to innovate and to improve business processes.

The example of Italy shows the major problems a country finds itself with when labour productivity is stagnant over a long period: stagnant purchasing power (i.e. stagnant per capita incomes), declining competitiveness, declining profitability and corporate investment, stagnant tax revenues and a reduction in efficient public spending[1].

All economic policies in the EU should have the explicit objective of lifting productivity (education, training, development of tech companies, efficient public investment).

Chart 2 Total Factor Productivity growth



Moreover, digitalisation, artificial intelligence and the data and platform economy are all key drivers of European productivity, growth and employment. In the long term, maintaining economic growth and employment will depend on the ability of business and industry to make full use of the potential offered by digital technologies. According to McKinsey[2], if Europe on average develops and diffuses AI according to its current assets and digital position relative to the world, could add some €2,7 trillion or 20 percent, to its combined economy output, resulting in a 1,4% compound annual growth through 2030.

1.3. Corporate, infrastructure, energy investments and R&D are higher in large economies than in Europe

Corporate investment is much higher in China, Korea, and Japan than in the EU and the US. And there is considerable variation across EU countries (*see Chart 3*).

[1] P. Artus, Zero productivity gains: is the euro zone heading in the direction of Italy?, Flash Economics, Natixis 15 February 2019.

[2] J. Bughin, J. Seeing, J. Manyika, L. Hämäläinen, E. Windhagen and E. Hazan, AI in Europe, MCKinsey, February 2019.

Recent years have seen **a marked decline in infrastructure investment**. At 1.6% GDP, investment activities in 2017 were markedly below their pre-crisis levels.

Despite the European Union's ambitious climate and energy targets, the bloc's investments also fall short of projected **energy investment needs**. The European Union's early focus on decarbonisation put it in a good position for current energy efficiency investments compared with the United States and China. However, it falls short in climate investments in transport and Research and Development, and the United States and China continue to overtake the European Union in this regard.

Although these economies are not fully comparable, China's climate change investments as a share of GDP is three times higher than those of the European Union, partly reflecting China's efforts to catch up. At current investment levels, the European Union runs the risk of missing its climate targets, failing to sufficiently adapt its economy and citizens to the impacts of climate change and losing its first mover advantage in clean energy.

The European Union's energy-related investments will have to double to meet its 2030 climate and energy targets.

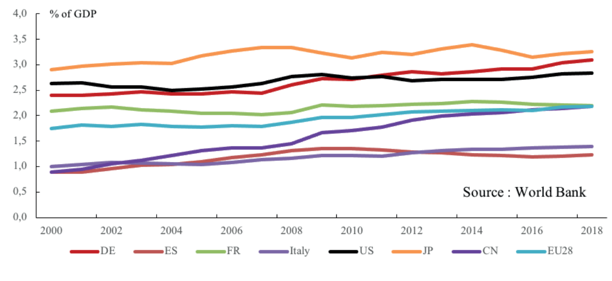
On Research and Development (R&D), the European innovation scoreboard for 2019 is quite positive since it shows that the EU's average innovation performance has increased by 8,8 % between 2011 and 2018, one point above the US.

However, while remaining at the frontier of innovation, the European Union is investing less in R&D, as a percentage of GDP, than other major economies.

Indeed, the annual R&D investment gap in the European Union is estimated at EUR 145 billion, based on the Europe 2020 target of 3% of GDP spending on R&D. Accounting for 2,18% of the GDP in 2018, R&D expenditure in the EU is smaller than other global competitors (*Chart 3*). The US spends almost one percentage point of GDP more than the EU, while it overreaches 3,2% in Japan (*see chart 3 below*).

Across the region, Germany is leading, spending 3,26% of its GDP in 2018. By contrast, Italy and Spain are far at the bottom.

Chart 3 Research & Development Expenditures



"Many European companies are major players in global R&D, but many of them are in the automotive sector (which is undergoing structural change) and relatively few in the fast-growing technology and digital sectors. European companies account for only 13% of those joining the group of leading R&D investors since 2014, compared with 34% for the US and 26% for China", the EIB stressed in this issue[3].

In addition, the EU only represents 12% of R&D expenditures in the tech sector, compared with 52% for the United States. This deficit has been associated with the lower average rates of return on R&D investment for EU firms than in the United States. This could be due to different business conditions, including access to finance and a regulatory environment that does not support young European firms undertaking risky and innovative investments[4].

Investment in intangible assets is higher in the United States than in the European Union

In 2019, US firms allocated 41% of total investment to intangibles (software and databases, training of employees, and organisational and business process improvements), compared with 36% in the European Union, according to data in the EIB Investment Survey. The difference in the importance of intangibles between the United States and the European Union is also in line with estimates from macroeconomic statistics on intangible capital. Within the European Union, the share of investment spent on intangibles is lower in Central and Eastern Europe (28%) than in Western and Northern Europe (37%) or Southern Europe (38%).

Europe is adding an Artificial intelligence (AI) gap to its digital gap

Digital adoption rates in the European Union are lower than in the United States and China and the gap is widening rapidly.

- As of the end of 2019, Europe was not home to any of the world's 10 largest internet companies and only one European company was in the worldwide digital top 20, according to Forbes.
- In June 2020, Europe had only 5% of the world's 483 unicorns – private companies with a value of at least $1 billion – compared with 47% for the US. China had 25% of unicorns (CBInsight, 2020). Only four European companies were in the top 100 global AI start-ups: Onfido and Tractable in the UK, Shift Technology in France, and Sherpa from Spain (CB Insights 2017).

According to a note issued by Mc Kinsey[5],

- As of the end of 2017, the US has invested around €220 per capita. In Europe, Sweden invested €123 per capita (the highest in the region) and Finland €58, but per capita investment was only €3 in Italy. In the provision of AI, Europe attracted only 11% of global venture capital and corporate funding in 2016. At this time, 50% went to US companies, with the balance going to Asia – mostly China (MGI 2017).
- In 2018, Europe had still not caught up (CB Insights 2017). In that year, China attracted almost half of global investment in AI start-ups, ahead of the US with 38%.

According to the EIB, in Europe, the take-up of digital technologies is slow and the digital divide between businesses is widening. Firms adopting digital technologies tend to invest

[3] EIB, Investment report (2019-2020).

[4] For instance, the venture capital market is smaller in Europe than in the United States or Asia – where it has grown rapidly in recent years, especially in China.10 From 2006 to 2018, the share of Chinese tech companies rose from 0.1% to 13%, taking market share mainly from other Asian countries.

[5] Jacques Bughin, How to develop enough European AI startups?, VOX, CEPR Policy Portail, 26 February 2019.

more, be more innovative and grow faster, taking advantage of their position as frontrunners. However, the share of digital companies in the EU manufacturing sector is 66%, lower than the 78% share in the US. The gap is even greater in the services sector, with 40% of businesses going digital in Europe, compared to 61% in the United State. Accordingly, firms that have implemented digital technologies tend to perform better than non-digital firms: they have better management practices, are more innovative, grow faster and create higher paying jobs.

This low level of research and development in Europe may have negative implications for innovation and long-term growth. The EU specialises less in the new technology sectors, which may explain the digital and technological gap with its global competitors. The shortfall in R&D spending may also explain the economic weaknesses described previously in terms of productivity and economic growth.

In such a context, the success of European states will necessarily entail a shared strategy. Technological challenges require a European industrial policy and strategy for technology funding. The EU should also improve cross-border capital flows between EU countries - i.e. completing the Banking Union and implementing the Capital Market Union), should encourage the development of equity instruments and support more actively disruptive technologies that are crucial for maintaining Europe's role in innovation and global competition.

2. The Coronavirus crisis worsens economic disparities across the EU

The countries of the euro zone entered the Covid crisis with heterogeneous economic and financial performances. This heterogeneity has led to significant differences in the means used by the Member States to deal with this crisis. The uneven fiscal responses to the Covid crisis could exacerbate the economic disparities.

2.1. The countries of the euro zone entered the Covid crisis with heterogeneous economic and financial performances

Over the past two decades, public debt (*see Chart 4*) has soared in some Members countries, due to the accumulation of large public deficits. Between 2014 and 2019, France, Italy and Spain experienced the largest public deficit in average, with 3,2% of GDP, 2,3% and 3,9% respectively.

Only Germany and the Netherlands have ensured a fiscal surplus over the period, with 1,2% of GDP and 0,04% respectively. These fiscal imbalances are often the result of the high current expenditures (*see Chart 5*) accumulated over years that have not fueled economic growth. With 55% of its GDP in 2019, France holds the record in the euro Area. Most of this spending is directed toward pensions and social security.

Moreover, high reliance on current expenditure implies high tax pressures, especially on companies, lifting their production costs. On this issue, France is also leading the Union, with 46% of GDP as tax revenue in 2018. The capital income tax rate stood at 34% in 2019, far above its neighbours - 26% in Italy, 23% in Spain and 26,4% in Germany, according to the OECD.

Chart 4 Euro Area Members Gross Public Debt, % of GDP

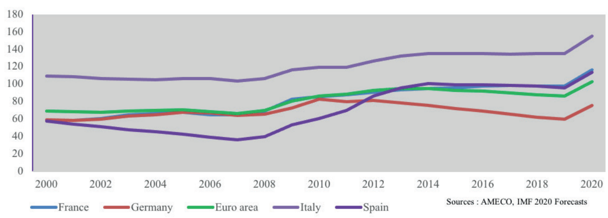
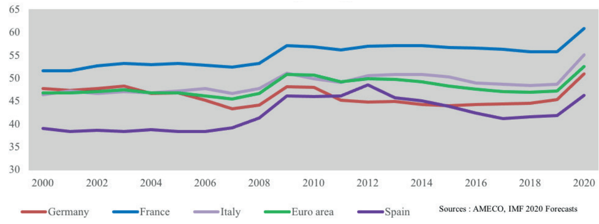


Chart 5 Public Spending, % of GDP

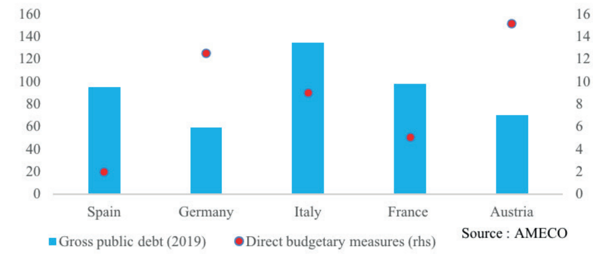


2.2. This heterogeneity has led to significant differences in the means used by the Member States to deal with this crisis

The Covid crisis has shown us that countries with the healthiest public finances have been the most efficient in tackling the economic consequences of the virus. We can see how much the policy, particularly in Germany, of reducing the public debt-to-GDP ratio to the level prescribed by the Maastricht rules, has paid off.

Starting with 60% of public debt, compared with more than 100% in other countries, Germany has been able to embark on a massive programme of aid to the economy, accounting for 12,6% of GDP, while its European partners are tackling the crisis with debt ratios at the limits of sustainability and therefore do not have the same margin for manoeuvre: Italy (9,1%), France (5,1%) and Spain (2%),as of July 23 (*see Chart 6*).

Chart 6 Direct Fiscal intervention relative to the national gross debt, % of GDP



Such economic disparities across the EU members may also have been the reason for the different distributions of the death toll. The pandemic has been the deadliest in Italy, France and Spain, where nearly 30,000 people have died. In the meantime, Germany may have been best to contain the pandemic, as the death toll has remained below 10,000, as of August 4.

2.3. The uneven fiscal responses to the Covid crisis exacerbate the economic disparities

Given uneven fiscal space and depending on their sectoral specialisation (reliance on tourism, share of unemployment in SMEs...) the member states have been hit unevenly by the pandemic and have responded to it differently. Both fact risk deepening the economic divide inside the EU.

The major fiscal consequence of the crisis is that the gap of public indebtedness across the EU members will widen. Then-indebted countries, such as France, Italy, and Spain, will end up far worse than those with the most accurate public finances, such as Germany, Austria and the Netherlands (*see Annexes 3 and 4*).

In addition, the most indebted countries of the EU, such as France, Spain, and Italy in particular, should endure the harshest hit in term of growth and unemployment in 2020 (see Annex1). The fall of GDP growth has been harshest in these last three Members, quarterly data show. Over the first quarter of 2020, France, Italy and Spain's GDP collapse have been more than twice as high the size of the German one.

Concerning the GDP growth yearly forecast for 2020, those of Italy, France and Spain may shrink to double-digit levels. By contrast, Germany GDP growth may fall by 6,6 per cent, according to the OECD (*see Annex 1*).

Concerning the recovery and the potential output lost, the European Commission[6] pointed out that "over the forecast horizon the recovery is expected to be incomplete in a large majority of euro area countries, as the level of GDP at the end of the last quarter of 2021 is forecast to be inferior to what it was in the last quarter of 2019.

Among the largest euro area economies, this difference is forecast at about -4 ¾% in Italy, -4% in Spain and -3 ¼% in France. In Germany, output is forecast to return to its pre-crisis level."

In addition to the output lost, this crisis is also having different impacts on EU labour markets. According to the OECD forecasts (*see Annex 2*), the unemployment rate in Germany may reach 4,5 per cent in 2020, and not exceed 6 per cent in Austria and the Netherlands. On the contrary, unemployment rate in France, Italy and Spain should evolve into double-digit levels, especially in Spain where nearly 20% of the working population would be unemployed.

These data and forecasts show that this current crisis is going to exacerbate the existing economic vulnerabilities within the EU.

3. The fiscal deal agreed by the EU Council is a significant step forward, but the name of the game remains national

In such a context, the fiscal response to the Covid crisis agreed in July at the European Council is a significant step forward which should strengthen the European Union. But the game changer remains national. Member states need to accelerate their reforms and implement strong and credible domestic reforms in order to improve the business environment the competitiveness of SMEs promote digital services, facilitate the shift to renewable energies, encourage education, skills and attract private investors.

Europe has also to do more. Technological challenges require a European industrial strategy and the EU should also improve capital flows between EU countries and encourage in particular the development of equity instruments. Promoting efficient financial intermediation across the EU is of the essence.

3.1. A big fiscal deal

As in earlier crises, the virus's economic ravages have split the EU's members given their uneven profiles. Rich countries with low government debt (such as Germany and the Netherlands) could cope fiscally mainly on their own. Some of the heavily indebted and infected countries (such as Italy and Spain) could not. Without fiscal aid, they have faced a recession deep enough to damage the whole of the EU economically putting at risk the European project.

In such a context, the EU leaders reached a deal on the recovery package and the European budget in order to support the recovery and resilience of the Member States' economies. Indeed, EU leaders have agreed to a comprehensive package of €1 824.3 billion which combines the new seven-year €1.074 budget and the €750 billion recovery programme under the Next Generation EU (NGEU) instrument.

The €750 bn recovery plan titled "Next Generation EU" will strengthen the Union. The total is equivalent to 5 % of the EU's annual GDP[7]. For the first time, the EU will collectively borrow the plan's full amount from the financial markets and repay it from the EU budget over almost 40 years. The shock absorbing role for the EU is a real novelty and this EU fiscal deal may set a precedent for future crises to be met with collective debt.

The move towards fiscal cohesion and solidarity is reassuring: the European Commission acting on behalf of the member states becomes the legal borrower responsible for the servicing and the repayment of the issued bonds and no more a simple intermediary between the market and the borrowing state. In addition, €390bn of the €750bn will be distributed as grants[8], and hence will not add to governments 'debt loads. Spain and Italy could receive non-repayable grants accounting for about 4,5 per cent of their GDP over three years.

As the Treaty imposes the balancing of European budgets, the ultimate guarantee on the bonds issued by the Commission will eventually fall on all Member States. If a country, or several, were to default, other Member States would have to step in as ultimate and joint guarantors - a first European move towards the "Hamilton moment".

THE HAMILTON MOMENT

As Secretary of the Treasury (1790-1795), **Alexander Hamilton** acted in an incomparably bolder fashion than the present European Commission.

His main objective – as a "Federalist"-was to secure a strong and financially sound Federal State. Throughout history, the trend towards a strong federal State has been spectacular. Out of total revenues, the Federation accounts for 54%, the States for 25% and municipal entities 21%.

In terms of share of GDP, the federal budget has jumped from 4% in 1790 to 40% today.

His financial achievements - under the fierce opposition from the tenants of sovereign independent states - can be summarized in five points:

1) **He consolidated, at the federal level, the debt issued by the 13 states during the Independence War** as well as the debt issued by the Federal government : the result was one single federal debt (the assumption of states debt by the Federation was justified, in Hamilton's words, by the fact that those debts "were the price of liberty");
2) The Constitution (that he had actively influenced) **had granted the Federal Government the exclusive right to collect import duties**;
3) To make sure that the US debt would be trusted by the public and eventually extinguished, **Hamilton created a sinking fund financed by post office revenues**;
4) He decided that **the outstanding foreign debt** - which bore relatively low (4 to 5%) interest rates - **would be paid in full, whilst the domestic debt would be restructured**: its high yield would be reduced in exchange of the new rock solid quality of the bonds in question;
5) **The States were expected to balance their budgets without being bailed out by the Federation: However, this principle ran into many exceptions during the first part of the XIXth century. It was in the 1840's that the "no bail out" rule was established under the interpretation of the 10th amendment.**

The "moment" was crucial: without Hamilton's fiscal achievements, there would not have been a powerful US federal state.

The EU should reflect on these issues.

Source: Extract from: J. de Larosière, Is Europe reaching a « Hamilton moment »?, EURO 50 GROUP 13th June 2020

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[6] European Economic Forecasts, July 2020.

[7] Calculated on the basis of the 2019 EU GDP without including the UK GDP.

[8] The plan ensures the money goes to the countries and sectors most affected by the crisis: 70% under the grants of the Recovery and Resilience Facility will be committed in 2021 and 2022 and 30% will be committed in 2023.

The "Next Generation EU" recovery plan is the second part of the EU's response to the pandemic. In mid-April the European Heads of State agreed on a three-layer safety net for workers, businesses and sovereigns totaling €540 billion.

A temporary solidarity Instrument (SURE) has been established to support protecting workers and jobs in the current crisis. Loans, backed by the EU budget, can be provided up to €100bn. The EIB is to create a pan-European guarantee fund of €25bn to support €200 bn of EU businesses, in particular SMEs throughout the crisis [9]. The ESM has also provided with pandemic crisis support, in the form of precautionary credit lines not subject to macro-economic policy conditionality. A Member State that draws under these Enhanced Conditions Credit Line (ECCL) will commit to using the money only to cover corona related costs. Each Eurozone country can benefit from this support up to the benchmark amount of 2% of GDP[10].

However, Europe needs much more to fill its infrastructure gap, the goals of climate change, and other sustainable goals. Given its size and its duration, the Next Generation EU plan will only partly cover these needs. More will be needed for Europe to escape the current trap of low trend growth. The EU plan is not designed to cover all investment needs but to help low-income countries narrow their gap. Among other key policies that must be delivered are the European Banking Union and Capital Market Union (CMU) without which the EUs' key political priorities will not be able to be implemented.

Faced with the "technological war" between the United States and China, Europe must lay the foundations of its sovereignty for the next 20 years. In the field of security and defence, reinforcing technological autonomy is essential. Sovereignty must also be exercised in the field of green technologies, and Europe must become the leader in this area. Technological challenges require a European industrial policy and strategy for technology funding. A holistic industrial policy marrying finance, research, industry, competition, trade, existing local eco systems and education is vital and urgent.

3.2 But the name of the game remains national

The EU safety net and the Next generation EU plan will help counter strains in the single market by allowing all governments to support workers and businesses through the recovery.

But the deal has come at a cost to other parts of the budget which will harm the EU in the longer term. To accommodate the insistence of the "frugal four" – Austria, Denmark, the Netherlands and Sweden- for limited grant funding, leaders agreed to slash top-up money for research and the green transition which are normally priorities for northern governments. For example, the European Defence Fund, which is intended to provide EU co-financing for joint industrial projects, will receive only EUR 7 billion, compared with EUR 13 billion requested. The "HorizonEU" – research and innovation programme is endowed with EUR 81bn, not the EUR 100bn initially expected. The Erasmus+ programme, will be less supported than expected.

The Frugal Four were also promised much bigger rebates on their budget contributions. By one calculation, France for example will now have to pay an extra €15bn into the budget due to this[11].

There is also no agreement on the ways for the EU to have revenue sources that are genuinely its own. Feasible options to help finance debt include new environmental levies (e.g. a levy on plastic waste, a "carbon border adjustment mechanism) and digital taxes but the EU July agreement offers only slivers of hope. Finding agreement on increasing the EUs own resources will be very difficult. As a result, debt servicing costs could well fall on the EU's normal Multi – annual Financial Framework (MFF).

The EU safety net and the Next generation EU plan represent a fiscal response of around 8% of the EU's GDP , made available over several years and with loans and guarantees comprising the bulk of the support. This is a significant amount but not a game changer. The main name of the game still remains national.

By means of comparison, Member States have provided support for their economies to the tune of 25,5% of GDP, including direct expenditures, financing measures and public guarantees. These measures will push public deficits to deeper levels. Italian, Spanish and French public sector deficits are going to increase by EUR 139, 83 and 141 billion respectively in 2020. Their public debts are going to jump by more than 20 percentage points of GDP in 2020 to reach respectively 123% of GDP, 166% and 125% of GDP in 2020, according to the IMF June forecast. This is not sustainable, underlining the need for broad-based structural reforms.

Another benchmark is the size of the recent German fiscal plans: all in all, the national stimulus in 2020 would amount to 6% of GDP. So, the name of the game still remains predominantly national.

Public Finances of the main EU members, as volume and share of GDP

bn EURO	GDP		Fiscal deficit		Gross Public Debt	
	2019	2020*	2019	2020*	2019	2020*
Germany	3 435,76	3 167,77	41,8	- 339,0	2 053,0	2 445,5
France	2 419,00	2 116,62	- 74,3	- 287,9	2 383,8	2 660,6
Italy	1 787,66	1 558,84	- 39,1	- 198,0	2 409,2	2 589,2
Spain	1 245,33	1 085,93	- 29,1	- 150,9	1 188,9	1 344,4

% of GDP	Fiscal deficit		Gross Debt	
	2019	2020*	2019	2020*
Germany	1,2	-10,7	59,8	77,2
France	-3,1	-13,6	98,5	125,7
Italy	-2,2	-12,7	134,8	166,1
Spain	-2,3	-13,9	95,5	123,8

*IMF June 2020 Forecasts

3.3 Designing and implementing an ambitious structural reform agenda remains an urgent priority for EU member States.

Monetary policy cannot do everything. Pushing too hard and too long on the monetary pedal generates financial vulnerabilities and imbalances and fodder eventually for the preparation of future crises. Likewise, there are limits to how far the boundaries between fiscal and monetary policies can be pushed without running the

[9] At least 65% of the financing will go for small and medium sized businesses. Up to 23% to companies with 250 or more employees, with restrictions applying to companies with more than 3,000 staff. Up to 5% to public sector companies and entities active in the area of health or health-research or providing essential services related to the health crisis. Up to 7% to venture and growth capital and venture debt.

[10] Should all 19 euro-area countries draw from the credit line, this would amount to a combined volume of around €240 billion.

[11] In the final summit agreement, Austria managed to double its rebate to €565m a year, while the Netherlands won an increase from €1,5bn to €1,9bn, and Denmark from €222m to €377m.

risk of undermining the central bank's credibility. High sustainable growth in Europe can only be achieved by reducing reliance on debt and reinvigorating productive economic activity through sensible investment.

This means that to restore growth in the EU, governments must stand ready to take corrective action to ensure a path of primary fiscal balances consistent with fiscal sustainability. It also means implementing structural reforms to lift potential growth rates, mitigating failures of healthy firms, orienting fiscal policies towards sustainable and digital investment...

This means that for restoring investment and growth in the EU, governments must stand ready to take corrective actions to ensure a path of primary fiscal balances consistent with fiscal sustainability. Indeed, ensuring the sustainability of public finances after the pandemic is essential. The persistence overtime of the current public debt levels would reduce the fiscal policy headroom for addressing adverse shocks, would expose the economies of the member states over-indebted (e.g. Italy, Spain, France, Belgium...) to a situation of chronic vulnerability ahead of changes in sentiment of financial markets and it would weigh down their investment and growth capacity.

This also means implementing structural reforms to lift potential growth rates, mitigating failures of healthy firms, orienting fiscal policies towards sustainable investment.

Only domestic structural reforms - e.g. reducing the regulatory burden on firms, taking steps to encourage innovation and technology diffusion, facilitate the shift to renewable energies, tackling barriers to the entry and growth of young innovative firms, shifting taxes away from labour, encouraging apprenticeship programmes and improving human capital, modernizing social safety nets to reduce disincentives to work, addressing pension system reforms, improving quality in national, regional and local government and administration, enhancing public procurement frameworks ... - can solve structural weaknesses in Member States, raise output and productivity growth, contribute to a healthy business environment, and reduce competitiveness problems and recourse to debt.

The psychodrama of so-called austerity has to be arrested which has undoubtedly weakened certain States of the Union. In fact, it is the fiscally virtuous countries that have best prepared their economies for the challenges of this pandemic crisis.

In countries with too much debt, decisions must now be made to stop "walking on their heads"; and to reduce fort with unproductive and inefficient public spending. This is the only way to release the necessary resources for the productive sector. Just a few years of efforts mobilizing all the energies are all that is needed. Such fiscal policy requires a spirit of cooperation among different political parties and on a bi-partisan basis; examples abound in the Northern European Member States.

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ANNEX

Annex 1 GDP growth

	GDP Growth, %			
	2019	Q1 2020	Q2 2020	2020 (Forecast)
Germany	0,6	-2,0	-10,1	-6,6
France	1,5	-5,9	-13,8	-11,4
Italy	0,3	-5,4	-12,4	-11,3
Spain	2,0	-5,2	-18,5	-11,1
Netherlands	1,8	-1,5	NA	-8,0
Austria	1,5	-2,4	-10,7	-6,2
Euro Area	1,3	-3,6	-12,1	-9,1

Source: OECD, June 2020

Note : GDP change over previous quarter

Annex 2 Unemployment rate

	Unemployment rate % of working population	
	2019	2020 (Forecast)
Germany	3,2	4,5
France	8,4	11,0
Italy	9,9	10,1
Spain	14,1	19,2
Netherlands	3,4	5,9
Austria	4,5	5,8
Euro Area	7,6	9,8

Source : OECD June 2020

Annex 3 Public Gross Debt

	Gross Debt, % of GDP	
	2019	2020 (Forecast)
Germany	59,8	77,2
France	98,5	125,7
Italy	134,8	166,1
Spain	95,5	123,8
Netherlands	48,3	58,3
Austria	70,8	84,6
Euro Area	84,1	105,1

Source : IMF June 2020

Annex 4 Fiscal Deficit

	Fiscal deficit, % of GDP	
	2019	2020 (Forecast)
Germany	1,2	-10,7
France	-3,1	-13,6
Italy	-2,2	-12,7
Spain	-2,3	-13,9
Netherlands	1,7	-6,2
Austria	0,4	-7,1
Euro Area	-0,7	-11,7

Source : IMF June 2020