Odile Renaud-Basso

Director General of the Treasury, Ministry of the Economy, Finance and the Recovery Plan, France

The European recovery plan to pave the way to a stronger, more sovereign and independent Europe

The EU economy is facing an unprecedented crisis, still surrounded by a lot of uncertainty. We are hit by a symmetrical shock, but with asymmetrical consequences among Member States, as they are not exposed to the same risks and vulnerabilities and because of different sequencings of the containment measures. Since the gradual lifting of these measures, our key challenge has been to reduce the sanitary risks to a minimum, in order to prevent or limit the second wave of the pandemic, restore confidence and thus maximize the effects of our economic support. Many other challenges remain ahead. The high degree of uncertainty we are facing is likely to delay the investment decisions of firms, which are also facing liquidity constraints as a result of lower revenues and a greater debt burden.

The increase in public debt will be substantial in the Member States, as they cover a large part of the losses related to the crisis. We also need to prevent further widening divergences, especially in the euro area. In our policy response, we need to ensure a proper transition between short-term support measures and accompanying measures, to sustain recovery without impeding economic adjustment to structural changes, and to ensure that the measures we take are properly designed to support longer-term objectives. These challenges are also an opportunity to further support public and private investments needs and incentivize reforms, especially in our priorities: green and digital transitions.

The agreement on a European recovery plan reached by the European Council in July (€750bn – or around 5 points of EU GDP) is an historic milestone towards more solidarity and a deeper integration of European economy, offering a visible signal to all citizens of the added value of the European Union. For the first time in the history of the European Union, this plan will be financed through common debt issuance, thereby maximising its counter-cyclical effect. It will provide for real budgetary solidarity towards the regions and sectors most affected by the crisis. Considering the interdependence of the EU economies and the dynamics within the Single Market, no country should be left behind the recovery support: the recovery in each Member State will affect positively the strength of the recovery of other Member States.

Beyond its ambition to stimulate and stabilise the economy, the Next Generation EU instrument aims to durably transform our economies and pave the way to a stronger, more sovereign and independent Europe. The funds disbursed under its Recovery and Resilience Facility (RRF) – amounting to €672.5bn, of which €312.5bn grants – will support investment and reform projects that enhance the growth potential, job creation and economic and social resilience from the next year onwards. They are also expected to contribute effectively and sustainably to the green and digital transitions, in line with the EU climate-neutral objective for 2050 and through the introduction of a 30% green spending target in the recovery package. From now on, we will have to deliver quickly on the implementation of our national recovery plans, that need to be consistent with the objectives mentioned above, so that the RRF could be disbursed swiftly, to fully play its countercyclical role.

In the meantime, the agreement of the European Council allows us to relaunch public investment as of today - following the large-scale national recovery plans Germany and France already announced - as recovery expenditure committed by member states since 1 February 2020 will be retroactively eligible for funding under the RRF. Next Generation EU also includes other programmes, including InvestEU - €8.4bn of which €5.6bn via the recovery plan - specifically dedicated to supporting private investment in the European Union, which should generate, after leverage, investments around €300bn. Finally, the Covid19 crisis has exacerbated our companies' need for equity capital and the need to diversify sources of financing beyond traditional bank lending. In the wake of the recent report of the High Level forum, we are committed to strengthen the Capital Market Union to forge a true Savings and Investment Union as one of the pillars of our European Recovery Plan. We are also committed to support the turning of our financial industry towards a more sustainable and technologically advanced future. ●