Dr. Jörg Kukies

State Secretary, German Ministry of Finance

Economic and financial priorities for fostering growth and innovation in the EU

Ladies and gentlemen, first of all, I would like to express my gratitude to David, Didier and their team – without their extraordinary efforts, this event would not have been possible. Many thanks also for acknowledging the work and organisational assistance of my colleagues to get this event going. I think it is an important signal that we are able to hold this conference with less attendees and at heightened health, sanity and security levels and I would like to warmly welcome all of you. I have to admit that it is a new experience for me to speak to such a large room with so few people in it, but if this is the precondition for holding gatherings like this, I will gladly get used to it for the foreseeable future.

Traditionally, this event takes place in the context of the meetings of the Eurogroup and the ECOFIN, so I would like to say a few words on political priorities by the German Presidency to be discussed during this week and beyond. As already mentioned, the key topic that will accompany us through our Presidency is recovery and resilience. The top priority is to implement the €1.8 trillion agreed by the EU leaders. The main task during our Presidency will be to take the 67 pages of the EU leaders' agreement and translate them into actual funds flowing. Our serious ambition is to start the process of recovery on 1 January and to get the package agreed upon at the highest level into action and start implementing recovery and resilience.

This agreement and the finance ministers' agreement on the €540 billion recovery plan in April is signals that the European Union is well equipped to face the corona crisis. This is a huge difference to the somewhat controversial response marked by dispute after the financial crisis. The European Union has shown resolve, unity and an ability to agree on massively important fiscal stimulus measures, both at Member State level and at Union level. These two components are extremely important. Not only did every Member State deploy the fiscal policy instruments at the national level, but afterwards, Europe as a whole decided to provide financial support. This decision avoided an asymmetric approach mirroring the fiscal capacity determining the response to the economic crisis. This is extremely important and a very clear signal to the markets, which have responded positively. Equally important is the good synchronicity between monetary and fiscal policy. In light of the abyss we stared into on 18 March and what we have achieved since then in terms of regained confidence and relaunching the economy, it is safe to say that the combined work of monetary authorities, fiscal authorities and the private sector has indeed strengthened us.

In this spirit, the priorities of the Finance Ministry will include three projects: number one is the Recovery and Resilience Fund. Number two is the Own Resources Decision, and number three is the multi annual financial framework. The Own Resources Decision is extremely important to make sure that the financing of the €750 billion RRF will actually happen and be implemented. It characterises the strength and resolve of the European Union to be a big capital markets player – hopefully with the AAA rating, as was mentioned – and hopefully with the strength of Europe's funding ability, that will be passed on in terms of growth-enhancing investments and spending. This will be accompanied by economic reforms, because this is the other part we are going through at the moment in the actual governance of the RRF, to ensure that our spending programmes will propel Europe to a higher growth path. It is important to mention that this is not an arbitrary measure. Europe is not transferring money to Member States to spend at their own discretion, but is agreeing to arm the European semester – the country-specific recommendations – and all of the European policymaking that we have come up with, to make sure that the money is implemented in a pan-European manner.

Finally, the MFF is an important topic for us, which is in the responsibility of our foreign ministry friends. Of course, we are working closely with them because everyone understands that the three elements of policymaking are intertwined and the debates with the European Parliament are extremely important in the context of a package deal. We are looking forward to achieving Council conclusions and decisions at the ECOFIN as early as October so that we can start the formal trialogue process with the EP with a view to getting funds flowing by the end of the year. The complexity of it all and the requirement to ratify Own Resources in each Member State shows that time is scarce. I can reassure you that this year, the unspoken rule of all of Brussels going on holidays in August did not happen. We worked extremely intensively in the last six weeks, essentially from the July Summit until today, with no break and no pause. Everyone was working hard to make sure that all the legislative work that needed to be done has actually been done and is going in the right direction.

However, these three pillars that have propelled themselves to the top of the agenda are not the only agenda items. There is another very important threesome, namely the Banking Union, the Capital Markets Union, and the Digital Finance Union. These have much more medium- and long-term perspectives, but no less urgency. On the Capital Markets Union, there has been a huge amount of positive energy, starting with the report of the Next CMU High-Level Group initiated by the Finance Ministers of France, the Netherlands and Germany. This was followed by the report of the High-

Level Forum on CMU in June. The 120 pages are an excellent compendium of specific, concrete steps, whether it is on post-trade, SME access to finance, or improving our pension system. We studied every single sentence of it and are very happy that there is willingness to move forward with concrete steps among the Presidency, the Commission and everyone I spoke with in the European Parliament. The goal during our Presidency is to achieve Council conclusions by December. This would be a strong signal by the Member States to everyone, particularly the Commission, that the legislative work on implementing the 120 pages into actual specific measures is strongly supported and endorsed. I am happy to see progress on this huge project during our Presidency.

The same goes for the Banking Union. We have made some proposals and there are many great ideas. We could observe that it was the right the lesson from the global financial crisis to enhance the resilience of the banking sector. Certainly, the strength of the banking sector has supported the response to the current crisis. This is something that also differentiates from the past crisis. Through the collaboration and combined work of the banking system and fiscal authorities, providing credit guarantees we were able to avoid the credit crunch we experienced in 2008-09 - which is a huge achievement. We went through the numbers for Germany with the Bundesbank and we actually had a credit expansion during the second quarter. Having a credit expansion when GDP contracts at double-digits is a rather unusual occurrence. The combined work of government guarantees, together with the activity of the banking sector and the strength and resilience of the rules we set in the Banking Union has really helped us.

We have witnessed similar experiences as the one in Germany all over Europe. The numbers from the ECB document that, as do the numbers from central banks. This is proof of its strength and resilience, but of course, our Banking Union is not complete. The lack of mobility of capital and liquidity stops us from being a truly competitive market for the banking system and financial services. This is an issue we have to address, along with the fact that risks will continue to build up. We are working on further steps towards risk reduction, but we also need to work on deposit insurance, prudential treatment of sovereign risk and cross-border mobility of capital and liquidity. Those elements are all components of a holistic Banking Union project that we intend to take further.

Digital finance is also hugely important, for which we need a European approach. In the last few months, we have witnessed how willing and able our citizens are to digitise their behaviour, and the financial industry lies at the core of that. We are also happy to report that we have been working with the Commission to take the Digital Union forward during our Presidency. This is a vital component of enhancing our European resilience. It also ensures that the European Union grows together and moves away from a fragmented landscape for digital banking business models, finding a response to questions of innovation of stable coins, cryptocurrencies and how to handle digital transformation in our financial system.

Germany is particularly proud to be moving our bond markets entirely to a digital world. This means that issuance, trading, settlement, custody, thus all parts of the value chain of the fixed income market, is at least optionally transferred to the tokenized world. There is huge willingness to engage in this transition. Our aim is to combine all these elements with sustainable finance, another big issue we are willing to take forward. Germany has just issued its first green bund and had quite strong demand for that, so we perceive the idea of sustainable finance as real, tangible, and effective.

The final project I would like to mention, closely interlinked with all previously mentioned ones, is the question of fighting money laundering. For this topic, have two main goals. One of them is to move from 'D' like directive to 'R' like regulation', meaning that we would like to reduce the amount of national discretion by implementing more harmonised anti money laundering rules in the European Union. Also, on the basis of a harmonised rule set, we aim at a single authority that will unify the supervision of anti-money laundering at the European level.

Please allow me to conclude by apologizing for only briefly touching upon all these topics; every one of them would have merited much longer speech time than I was able to attribute to them. However, my aim was to give you a high-level, quick overview and an outlook on the two days ahead. I look forward to lively discussions during this conference and would like to thank you all for coming here. ■