Q&A

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Building a better future for Europe: using the recovery to adapt our economies for new challenges

To what extent will the EU's new €750 billion recovery fund contribute to addressing the economic priorities resulting from the pandemic and the impacts of the Covid-19 crisis on the Monetary Union?

Socio-economic integration and convergence lie at the heart of the European Monetary Union. While the pandemic continues to affect all EU countries, some economies have been hit much harder than others.

These national differences are largely caused by the severity of the pandemic, stringency of containment measures and the relative importance of sectors more affected by the restrictions, such as contact-intensive services.

In addition, due to their own structural challenges, some EU countries are comparatively less resilient to shocks. All this means that the Covid-19 crisis threatens the progress made in reducing economic divergences.

At the same time, economic and financial spill-overs tend to spread quickly through the single market and EMU. So taking a common EU approach to tackling the pandemic's economic impact is in the interests of individual countries and the EU as a whole.

The NextGenerationEU instrument will not only help to repair the immediate damage from the pandemic and support the recovery, but also allow EU countries to address their long-standing structural challenges and prepare better for future challenges.

Countries which were in a weaker starting position and whose economies were hardest hit by the pandemic receive a proportionally larger share of EU funding. This will help to promote economic and social integration and reduce the risk of more divergences.

Reaching agreement on NextGenerationEU demonstrated a high degree of commitment to European solidarity. It has also strengthened trust in the future of monetary union.

Its centrepiece instrument, the Recovery and Resilience Facility, will provide €672.5 billion to support investments and reforms in Member States. National recovery plans must be well prepared and ambitious, meeting the green and digital mainstreaming targets and be in line with country-specific recommendations of the European Semester.

This will ensure that they facilitate the transition to a greener and more digital European economy, stimulate long-term economic growth and help to boost the sustainability of public debt.

What are the major threats to the effectiveness of this EU Recovery package? How may they be overcome?

Now that the Recovery and Resilience Facility has become law, its funding must flow as soon as possible to support a strong and lasting recovery.

However, to access the funds, Member States must first submit high-quality reform and investment plans to the Commission for assessment and approval.

The Commission is in intensive contact with all Member States to give guidance for this, using the country-specific challenges in the European Semester as a strategic compass.

Growth-enhancing reforms are essential for complementing the major efforts being made to stimulate investment. That includes reforming a country's business environment, public procurement rules or public administration as a means to reducing obstacles to investment flows.

The Commission will take all this into account when assessing each plan.

The regulation establishing the Recovery and Resilience Facility contains many safeguards to make sure that the money is well spent on projects that provide genuine added value and can drive potential growth up for years to come.

It will also be important to invest in sectors that can generate quality jobs. Workers also need to acquire the right skills to navigate the green and digital transitions. We should not allow the lack of a skilled workforce to hold up growth.

Before the RRF funding can flow, the Commission needs to be legally empowered to borrow on the markets, and this means that all Member States must first ratify the decision on own resources.

It is only then that the RRF funds, including the 13% pre-financing, can be disbursed to help people and businesses overcome the economic consequences of the pandemic.

When the COVID-19 crisis is over and the recovery starts, what should be the EU's economic and financial priorities?

The EU has taken unprecedented measures to protect people's jobs and to support companies. This was our short-term response to mitigate the worst effects of the pandemic. And it has been successful.

The fiscal measures cushioned the impact on GDP by around 4.5% in 2020.

Both this year and next, we will need to continue to provide support to the economy.

The support measures must remain temporary and targeted. This will allow them to be withdrawn gradually when the time is right, helping a return to more prudent fiscal positions in the medium term.

Once health risks reduce and we move into a post-crisis phase, Member States will be able to move from short-term emergency support into measures promoting a resilient and sustainable recovery.

We should make most of this situation to adapt EU economies to face new challenges and create new areas of potential growth - like green and digital.

This means investing in people and skills, particularly for working in the green and digital economy, and helping businesses – particularly smaller ones - to stay competitive in this new environment.

We need to choose our measures well and improve the quality of public finances, prioritising investment. This is where the RRF will help a great deal.

Member States should make good use of the substantial economic impulse that will come from the RRF, without causing higher deficits and debt.

Lastly, Europe's financial sector also has a role to play in the recovery phase, including by contributing to the twin green and digital transitions. While it has shown its resilience throughout the crisis, there is room to make it more resistant to future shocks.

We particularly need to make good on completing the Capital Markets Union and Banking Union. Our revamped CMU action plan from last autumn will help to make our economic and financial system more resilient and efficient.

It will help companies to stay solvent by giving them a more stable and diversified funding structure. It will also help to finance the twin transitions and contribute to a more inclusive society.

How and when may the Stability and Growth Pact rules be reactivated? Do they need reforming?

In March 2020, the EU decided to activate the General Escape Clause (GEC) in the Stability and Growth Pact for the first time. EU governments needed to be able to do what was necessary to deal with the immediate, severe socio-economic of the pandemic.

Activating the GEC permitted the EU to carry out a timely, forceful and coordinated response to a fast-evolving crisis. It allowed EU countries to depart - temporarily - from the normal requirements of EU fiscal rules at a time of major economic downturn.

At the same time, the priority throughout this period has been not to endanger medium-term fiscal sustainability.

It will clearly take some time for our economy to return to normality. In the meantime, the decision on whether or not to maintain activation of the general escape clause will depend on the overall state of the EU and euro area economy and will be based on quantitative criteria - in particular, economic output reaching its pre-crisis level.

Our current economic forecast points to the GEC remaining active in 2022 and no longer in 2023. A final decision will be taken in spring.

Once the recovery takes hold, the debate on the reviewing the economic governance framework will be relaunched. We need to build consensus, because a fiscal framework can only be effective if there is strong political commitment to adhere to it.

One significant area to examine is how best to make sure that it brings about sustainable fiscal positions in all Member States. We need a credible debt anchor that is adhered to, especially during better economic times in the future.

Second, the framework has become too complex. One way to simplify it would be to move away from indicators that are not directly observable, such as the output gaps and structural balances.

Regardless of whether we still have the current or new rules by the time the GEC is deactivated, we will continue to take country-specific situations into account. The Stability and Growth Pact provides the necessary flexibility to do this.