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Keynote speech

Thank you. First let me congratulate Eurofi for organising this very interesting event. Thank you for inviting me to say a few words today.

I would like to look back at the last 14 months and to share some thoughts about how we got here today and about the road ahead of us. I am sure everyone will agree that it has been quite a challenging journey, but now we see finally light at the end of the tunnel. Around 14 months ago the COVID-19 outbreak hit Europe and we faced the difficult decision to close our economies. At the time, no one really knew what the consequences would be for our economies and firms. However, it was clear that our priority had to be the safety of our people.

Europe was truly tested. And now, although the fight is not over, looking back we can say that Europe's people, workers, firms and financial sector… they all showed an incredible resilience and capacity to adapt. The European Union also did not fall short of its obligations. The coordinated, bold and timely action at EU level was exemplary and showed a unified and strong front. The flexibility embedded in our fiscal, financial and state aid frameworks allowed us to agree on safety nets that provided an important relief for workers, businesses and sovereigns. The EU was able to agree on the largest stimulus package ever financed through the EU budget.

We must acknowledge that the response to this crisis has been very different from the one during the previous crisis. Different in terms of: (i)the speed of the agreements, (ii) in the willingness to find an appropriate solution to face a significant common challenge, (iii) in the way European policies have been complementing the national ones, and (iv) in the way monetary and fiscal policy have been working hand in hand for the first time, reinforcing their efficiency, and also in the role of the financial sector.

Let me say a few words about our fiscal instruments. Fiscal policy has been a crucial instrument to support families and keep firms alive. The agreement on the activation of the general escape clause in 2020 and 2021 allowed member states to fight against the economic and social effects of the pandemic crisis. Despite the incredible tumble, the economy fell much less than anticipated and especially unemployment rates increased much less than previously expected.

Although many countries are still being challenged by new waves of the virus, our firms and economies have shown the capacity to adapt, and the impact of these last lockdowns have been much less severe than the first one in 2020. These are only some signs of the success of our coordinated actions.

With regard to the financial sector, the banking system has also been able to deliver, guaranteeing the flow of credit to the economy. Indeed, banks went from being a shock amplifier in the sovereign debt crisis 10 years ago to becoming a shock absorber in this crisis. Put differently, banks went from being part of the problem to being part of the solution. Banks entered this crisis better capitalised and in a better liquidity position. Banks also benefited from the significant support provided by governments and authorities to households and non-financial companies. We are reaping the benefits of the good work done in the last decade.

Nevertheless, some of the pre-existing vulnerabilities persist. We must address them in a timely manner. The work on NPLs must continue. It is an ongoing priority for many banks. It is paramount to be prepared for the incoming rise of NPLs in the aftermath of the crisis. Here, special attention must be paid to the unwinding of support measures and to the impact on bank balance sheets and, in turn, on the lending capacity. Also, we need to assess if we have the tools we need and if they are fit for purpose. Banks' capacity to maintain the financing of the economy is crucial to support the economic recovery.

Now, looking forward…

As the vaccination campaign unfolds, we anticipate a strong economic recovery in the second half of this year and in 2022. However, uncertainty remains high, and we should not stop supporting our economies now as we risk intensifying the long-term scarring effects. Keeping the complementarity between fiscal and monetary policies is of the utmost importance. Fiscal policy should stay flexible. Support measures should be kept in place for as long as necessary. Also, we must stay vigilant as the speed of recovery is uneven across countries and sectors. At ECOFIN council we have agreed that fiscal policy must remain supportive of growth next year. I expect ECOFIN to confirm next month that the general escape clause remains activated in 2022.

Both workers and vulnerable but viable firms should be protected without preventing an efficient reallocation of resources across the economy. With recovery in sight, it is time to start planning the transition from broad emergency measures to measures that kickstart and support a strong economic recovery. At the same time, we cannot lose sight of the medium-term fiscal sustainability concerns.

After two large economic recessions in less than a decade, member states' debt levels have amplified. It is now time to reflect whether the current fiscal surveillance framework is still the most adequate to address the challenges of tomorrow. This crisis showed us the need to strengthen the EU architecture in order to guarantee some public finances, but as well necessary conditions to promote investment and growth. The Recovery and Resilience Facility will be a game changer, a key instrument that will allow us to kickstart the economy and to prepare the ground for a sustainable recovery without further burdening public finances. The national recovery plans represent a unique opportunity for member states to pursue high levels of investments that will create jobs, promote growth and support the green and digital transitions. Here a smooth and speedy approval of those plans brings our recovery effort one step closer to reaching the real economy. It is of utmost importance that the money starts flowing through the economy now when it is most needed.

The issuance of high-quality euro-denominated bonds under the RRF will add significant depth and liquidity to the EU capital markets. This is also a milestone for the EU and a vital step to European economic policy integration as it is the first time that such a joint funding model is agreed on to support economic growth. The issuance of green bonds under this facility can also reinforce the international role of the euro and the EU leadership in the fight against climate change. We must spare no effort until we achieve a sustainable and inclusive recovery.

That is why the Portuguese Presidency has been working towards: (i) promoting a recovery leveraged by the climate and digital transitions, (ii) implementing the European pillar of social rights as a distinctive element to ensure a fair and inclusive transition and (iii) strengthening Europe's autonomy by taking a leading role in climate action and promoting a digital transformation at people's service.

We shall walk out of this crisis as a more integrated Europe, better prepared for the challenges of tomorrow.