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Implementation of the EU Next Generation package, what next?

Ladies and gentlemen,

First of all, thank you for inviting me to speak to you at Eurofi's seminar today. I hope next time we can meet in person.

When I addressed the Eurofi conference last September, I introduced the Next Generation EU recovery package and its main funding instrument, the Recovery and Resilience Facility.

Although we still face a great deal of uncertainty and risk, the economic outlook now looks more optimistic – with a few caveats, of course. A lot will depend on the evolution of the pandemic and progress in national vaccination campaigns. This should allow containment measures to ease gradually over the coming weeks and months. We can expect a recovery to take hold during the second half of this year.

Both the EU and euro area should return to their pre-pandemic output levels in mid-2022. However, the recovery is going to be uneven across EU countries.

Europe has demonstrated strong solidarity through this crisis. We managed to coordinate quickly and decisively across 27 Member States with emergency measures to keep economies and societies going. This is about many livelihoods saved, jobs protected, businesses kept afloat, both large and small.

Europe is now coming out of this crisis. And its impact would have been much worse without the unprecedented efforts made by the EU's institutions and Member States.

National fiscal measures, together with automatic stabilisers, amounted to some 7% of GDP in 2020.

Liquidity support, mostly in the form of guarantees, added up to some 19% of GDP. This was facilitated by activating the general escape clause of the Stability and Growth Pact early on, and applying the full flexibility of state aid rules.

In addition, the powerful European Investment Bank instruments - including the Pan European Guarantee Fund – have provided sizeable support, particularly for smaller businesses.

The SURE short-term work scheme has helped to support millions of workers and companies.

Altogether, support measures are estimated to have cushioned the GDP contraction in 2020 by around 4.5 percentage points.

It is clear that we need to continue supporting the economy both this year and next – and not withdraw support prematurely. Support measures should continue for as long as needed. They must remain temporary, targeted and agile: to avoid creating a permanent burden on public finances.

The decision on whether or not to keep the general escape clause activated will depend on the overall state of the economy. And it will be based on quantitative criteria - in particular, economic output reaching its pre-crisis level.

Our current forecast points to the clause staying active in 2022 and no longer in 2023. A final decision will be taken in the European Semester spring package. The post-pandemic world will probably bring new vulnerabilities, such as greater structural inequalities and higher debt burdens.

Latest data from the European Central Bank shows that banks' ratio of non-performing loans is continuing to fall, despite the crisis. For the last quarter of 2020, the NPL ratio fell to 2.63%.

Still, we will need to watch out for increased risks of insolvencies and their fall-out in terms of unemployment and non-performing loans. And we will need to make sure that financing of the economy can continue. For that, we need deep and integrated capital markets. And we need strong and solid banks to provide financing to household and companies. This is why we want to make good on completing the Banking Union and advance towards completion of the Capital Markets Union. This includes making the most of digitalisation to boost our economy.

Yesterday, the European Central Bank published a report on the outcome of its public consultation for a digital euro. It shows a clear desire by respondents – people, businesses and payment industry professionals - for integrating a digital euro into existing banking and payment systems. They saw privacy as its most important feature, along with security and useability throughout the euro area.

A digital euro can only be successful if it meets the needs and expectations of those who are going to use it.

Ladies and gentlemen,

On fiscal policy, we know that this support cannot stay in place forever. When the time is right, Member States will need to refocus their budgets towards achieving prudent fiscal positions in the medium term.

Once the recovery takes hold, we will relaunch the debate on the future of our economic governance, when we can reflect on these developments, and take our experiences from the COVID crisis into account. As I understand, in the previous panel, you were discussing this topic.

Building political consensus for this will be crucial. A fiscal framework can only be effective if there is strong political commitment to adhere to it.

I see two main areas where we will need to reflect:

- how to make sure the rules bring about sustainable fiscal positions in all EU countries;
- how to simplify what has become a complex framework.

I know that this is not going to be an easy discussion – there are many longstanding views and differences. For now though, the immediate priority is to tackle the pandemic and its socio-economic fallout.

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

I see this next phase, when it happens, as a dual opportunity.

- to stage a lasting and inclusive recovery;
- to make our economies stronger and more resilient for the future, making the most of the possibilities offered by the green and digital transitions.

Both are areas of high potential growth and will be vital for the recovery. This is a unique chance to reduce social divergences and modernise in a green and inclusive recovery.

The Next Generation EU recovery package worth €750 billion gives us a powerful tool to make this happen.

In the longer term, it will allow EU countries to:

- address long-standing challenges;
- better position for the green and digital transitions;
- increase growth and jobs through investment;
- and invest in people.

This brings me to the Recovery and Resilience Facility, or RRF: the centerpiece of our recovery package.

Putting it into proper effect should provide a strong impulse to the economy, especially if the funds are well spent and accompanied by effective reforms. We estimate that real GDP in the EU will be boosted by up to 2% over the RRF years.

This is why the Commission is engaging intensively with national authorities to make sure that their recovery and resilience plans are of high quality and submitted as soon as possible.

The plans should contain a high level of ambition, with the right balance between investments and reforms. They need to address at least a significant subset of challenges in the country-specific recommendations within the European Semester.

So, they must have a long-lasting impact, not just bring about a short-lived surge in GDP growth. They must support our growth potential for years to come. So, the RRF funding needs to be wisely spent.

We have received information from the vast majority of countries about what they intend to include. And many Member States will be submitting their plans by the end of the month.

For the months ahead, our watchword will be implementation: making the best use of the RRF's substantial funding to help each country's long-term recovery.

While it will be central governments that will receive the funding, the recovery will only succeed if an entire country takes responsibility for putting a national plan into full and proper effect.

That means strong regional and local ownership, together with support from social partners and civil society. The Commission encourages their involvement at every stage of the process.

We have achieved a great deal in a short time – and it is absolutely crucial to get these plans right, with the right reforms and the right investments.

We chose the name NextGenerationEU for a good reason.

It reflects the fact that our recovery plan is not only about getting through the crisis but also about the future of young people.

We need a recovery that provides many things to people.

It must provide quality jobs and decent incomes.

It must allow us to make the most of opportunities offered by the green and digital transitions. And it must leave nobody behind.

Ladies and gentlemen,

I would like to conclude by thanking Eurofi and its members for their constant support throughout this extremely difficult time.

It has been essential to provide the real economy with adequate funding and to shore up the resilience of the financial sector.

Together, we have achieved this - and, I hope, got through the worst of this crisis.

And I know that we can also rely on your support as we enter the next phase. Thank you.