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Post COVID-19 Recovery Plan for Europe

The EU should continue with the coordinated political reaction, enhancing the EU added value.

In the current times, we are rethinking our health systems and business and economic practices. Achieving a successful recovery will require harnessing all the potential of the green and digital transitions.

The COVID-19 pandemic has led to a need for emergency liquidity in large parts of the economy to cope with the economic consequences. Many insolvencies, bankruptcies, and redundancy of workers were prevented by the support measures. But eventually, we will have to switch to the recovery measures. This means that some companies might also exit the market. However, we need to create conditions for new entries and provide viable companies with an access to R&D stimulations, upgrading employee skills, and flexible working schemes.

The historic agreement on the EU fiscal stimulus is a starting point for the recovery. Hence, efficient implementing of the investments and reforms envisaged in the recovery plans is the top priority. A successful recovery will provide the best basis for discussions on the fiscal stance. Designing the appropriate path to the recovery and sustainability is parallel to the top priority. An agreement on dynamics is required. With smart investments, we need to design a path to a sustainable recovery, look beyond 2022, and not repeat the mistakes from the previous crisis. But the recovery cannot happen overnight. After 2022, we should focus on simple but politically sensible solutions.

As restoring debt to pre-crisis levels is essential in the short term, it requires a better market ecosystem for issuing new equity. Government support packages and monetary policy and regulatory flexibility have in many ways ensured that short-term finance is available to businesses, but further steps are needed. Guaranteed loans have covered emergency liquidity needs for companies, but solutions to restore solvency must also be provided. Yet, in such a demanding COVID-19 environment of elevated public debt, it is paramount for sovereigns to improve the risk metrics and the debt structures. In this context, in the environment of strong demand for duration and given elevated funding needs, the long-term funding is the logical choice.

To make our economies more efficient, competitive, and sustainable, the

access to funding, especially non-banking, must become easier. Our aim should be to improve Europe's capital market effectiveness and increase its resilience while keeping it competitive and attractive to market participants. The importance of a rapid recovery should not neglect the importance of an adequate risk management, systemic stability, and resilience while ensuring better protection for customers and investors.

Hence, one of the priorities is the revision of the Basel III standards in the EU banking legislation, which will provide improved rules to further reduce banks' exposure to risks: credit, operational, market, and other risks. It is important that banks maintain their capital adequacy for the real economy, especially for SMEs. Securitization of loans would allow the banking sector to free up bank capital for further lending, allowing a wider range of investors to finance the economic recovery.

The revision of Solvency II framework is among the most important steps toward the completion of the Capital Markets Union. Improvements to prudential rules are necessary to provide further implementation of a risk-based prudential regime. Therefore, we need to complete the Banking Union and the Capital Markets Union. Compromises will be necessary to achieve these goals, but if we take a constructive approach, we will be able to fulfil the vision and move on to even more ambitious goals to achieve higher levels of prosperity, innovation, and environmental sustainability.

We are entering a new reality of rising inflation, low interest rates, high debt, and different forms of economies facing large investment needs to further improve our health systems and to pursue our goal to prepare Europe for the green and digital transitions. Thus, the EU should continue to work together – a prosperous future lies in the strength of unity, and this is an opportunity that we must not miss.