IMPLEMENTING THE EU RECOVERY PACKAGE

GERT JAN KOOPMAN
Director General,
DG Budget, European Commission

Borrowing to finance the EU's recovery

Policy-making in 2021 is all about delivery. For the EU, this has meant turning the €800 billion NextGenerationEU – also NextGenEU - recovery instrument, funded through borrowing on the capital markets, into a reality. What have been the challenges and what is the expected added value?

NextGenEU – turning a concept into a reality

To finance NextGenEU, the European Commission – on behalf of the EU – will borrow on the capital markets some €150 billion per year between mid-2021 and 2026. This will turn the EU one of the biggest issuers in euro.

Challenge number 1 – to raise these amounts efficiently under the changing market conditions while securing optimal financial terms. To address this challenge the Commission decided to use a sovereign-style diversified funding strategy and sovereign-style funding techniques. To that end:

- In April, we adopted the underlying legislation, which allows us to regularly issue large benchmark bonds across the yield curve and to establish an EU-Bill programme to access the money market;
- In May, we chose the auction system TELSAT operated by Banque de France to auction our EU-Bills and part of our long-term EU-Bonds and; set up the necessary accounts with the European Central Bank;
- On 31 May, we published the first list of EU primary dealers – 39 institutions to support us in the successful placement of NextGenEU issuances;
- Finally, we announced our funding plan for 2021 to enable it to address, over the second half of the year, all NextGenEU funding needs.

In the meantime, EU countries completed the approval of the Own Resources Decision – the piece of legislation to enable the borrowing under NextGenEU as a result of which it entered into force on 1 June. The time had come for the first big test – and challenge number 2 - the NextGenEU market debut. The moment to prove if we had done our homework right. The expectations were high and it was important to deliver on them.

Ready, steady… first issuances

On 15 June, the European Commission raised €20 billion in a 10-year bond, the largest-ever institutional bond issuance in Europe. Two more record-breaking issuances followed, one of them a dual-tranche transaction combining funding under the back-to-back EFSM and MFA programmes. Thus, from mid-June to mid-July, in the course of just 4 weeks, the Commission raised more than €50 billion in 3 transactions, with tenors across the maturity curve. Each of the issuances attracted a strong interest by investors and priced under very attractive terms. All transactions performed well in the secondary market. From a policy perspective, this meant that the Commission has been well-placed to carry out all planned NextGenEU payments to EU countries over the summer.

Our success also meant that the Commission passed its first big market test. We showed that calling NextGenerationEU a game changer was fully justified. Challenge number 3 is now ahead of us – how to sustain this success and deliver on lasting positive effects for the EU and its capital markets.

Delivering on a lasting success

This autumn, we will continue implementing our diversified funding strategy. We will adopt the NextGenEU green bonds framework and issue the first NextGenEU green bonds. We will also start auctioning our EU-Bills and part of our EU-Bonds. With all of this, we expect to continue ensuring the necessary funding for NextGenEU.

In addition, NextGenEU will:

- Offer global investors a new highly rated and liquid asset in euro, thus attracting them to the EU capital markets;
- Ensure a regular presence on all parts of the maturity curve of liquid EU-Bonds, thus creating an additional reference point for market participants;
- Introduce the EU into the money market, thanks to the regular issuance of EU-Bills. Investors will thus have access to a liquid money market instru-ment, which benefits from the EU credit rating;
- Strengthen further the role of the euro in the sustainable finance market. The up to €100 billion SURE programme doubled the social bonds mar-ket. The expected €250 billion green bonds under NextGenEU will now significantly boost the size of the green bonds market.

All of this will strengthen the international role of the euro and will increase the attractiveness of the EU as an invest-ment destination. Many more challenges will follow on the way to achieving this. We are ready to address them!

JEAN LEMIERRE
Chairman, BNP Paribas

How to ensure smooth financing of the Green and Digital Recovery?

As Europe is progressively exiting an unprecedented health crisis, the focus is now turning to the economic recovery. We already observe a strong momentum in the economy, even if some challenges lie ahead, requiring banks to closely monitor their clients, and adapt their financial structure on a case by case basis.

Our collective ambition should be, not only to recover the pre-crisis GDP, but to invest to increase Europe's potential growth, leveraging in particular the Green and Digital transition.

We fully welcome the focus of the Next Generation EU program, which allocates a significant part to the Green and Digital agenda. These priorities are fully supported by the European banks and by their clients.

Such a transformation of the EU economy will require, on top of the public investment programs, massive private investments which will need to be financed.

In this context, European authorities should focus on three top priorities:

- Encourage the mobilization of EU's savings in European productive investments. This is indeed needed as at present a significant part of EU's savings is financing productive investments in other jurisdictions, fostering their competitiveness instead of the European one. This requires in particular the recalibration of some burdensome constraints in MIFID and PRIIPs, which, with the intention of protecting consumers, result in a disproportionate reduction of investors' risk appetite.
- Recognize that most of the financing will continue to come from banks. Therefore, EU policy makers should avoid piling up additional regulatory constraints which, as demonstrated by the recent crisis and a good number of official statements, are no longer needed and, if implemented, would reduce banks' financing capacities. In particular, the implementation of the final Basel III Accord should not result in a "significant capital increase", as mandated by the G20, European Council and European Parliament.
- Truly engage in the development of EU's Capital Markets, as a complement to bank funding. In particular, two aspects are essential to fund the Green and Digital recovery: the reinforcement of corporates' own funds, given the current high level of gearing, and the relaunching of securitization, so that banks can continue to play their credit origination role, while sharing the returns and the risks with non-bank investors. At the same time, given the progress made in developing a safe securitization model in Europe, this will create new investment opportunities in Europe for insurers, asset managers and pension funds, which are desperately looking for investments products with positive yields.

There cannot be a CMU without strong EU CIBs, and we fully welcome the January communication on "open strategic autonomy". Therefore, it is essential that the Basel III finalization is implemented in Europe without jeopardizing capital markets businesses, which will be highly penalized, through FRTB, SA-CCR, and securities financing businesses, as shown by the EBA impact studies. The Commission needs to ensure that capital requirements remain proportionate to the risks, and that there is enough flexibility in the text to ensure alignment in timing and substance with the main jurisdictions.

Finally on Environmental Social and Governance matters (ESG), we fully welcome the move by the G20 towards global ESG standards, indeed necessary in order to accelerate the global ESG momentum among public authorities, financial institutions, non-financial corporates and civil society at large. There is obviously a need to intensify and foster the existing dialogue among the different jurisdictions, in particular US and EU, to reach a consensus on globally harmonized standards and align as soon as possible on methodologies and metrics for monitoring progress. This means that the EU and US need to address some already discussed legitimate concerns. For instance, the US should accept the impact of companies on climate has to be taken into account as well as the impact of climate on companies (the double materiality concept). At the same time, the EU, without compromising on its level of ambitions, should better take into account companies' green transition in the Taxonomy, which currently focuses on the narrow scope of "already green" assets. To attain our collective climate transition objectives, the EU framework, and any global taxonomy to be defined, needs to be complemented by sectorial pathways that would encourage capital allocation towards the "greening" of the economy, i.e. towards investments most needed to transform the business model of companies to a greener one. That way, the EU's extensive work and recognized leadership could be leveraged to become the cornerstone of global ESG standards.

Finally, we hope that further steps will be made in the run-up to COP26 towards mandatory ESG disclosure for all large (both listed and non-listed) corporates in all jurisdictions. The availability of high-quality, reliable and accessible ESG data disclosed under harmonized standards is key to channel funding to both green and transitional activities, as well as to monitor national commitments and investment plans to comply with the Paris Agreement.

We all live on the same planet and we share the same (or very similar) net zero commitments. We now need the same metrics to monitor progress.

EMMANUEL MOULIN

Director General of the Treasury,
Ministry of the Economy, Finance and the Recovery Plan, France

Ensuring the return of sustainable and inclusive growth in the European Union

Looking back, we can be proud of what the European Union has achieved during this unprecedented economic and health crisis, at a time when many doubted its added value and effectiveness.

In record time, Member States agreed on a historic plan financed by a common debt issuance, to support the recovery efforts of Member States, in particular those most affected by the crisis, and to sustainably transform European economies, notably to meet the climate and digital challenges. This is a strong signal of the European Union's solidarity and ability to react timely and jointly.

They have also successfully submitted ambitious national recovery and resilience plans. As of early August, 16 plans have been adopted without difficulty by the ECOFIN Council and more should follow by September. This demonstrates the high quality of these plans, whose investments and reforms will stimulate recovery while addressing long-term challenges. The first disbursements of pre-financing is a victory for Europe, especially for citizens who will concretely benefit from the European recovery plan.

As for France, our recovery and resilience plan adopted at the July ECOFIN council, finds its origin in the €100Bn national plan France Relance. Focusing on three key priorities, green transition, competitiveness, and cohesion, it has the ambition to transform the French economy and enable it to meet the challenges of 2030. As a top priority, about half of the plan's investments are dedicated to the climate transition: we invest massively in the energy retrofitting of buildings, the development of green infrastructure, mobility and technologies. To foster innovation, we will also invest in innovative sectors such as artificial intelligence and cloud, in research and development and for the digitalization of the economy. Nearly a quarter of our plan is devoted to the digital transition. Finally, to avoid long time scarring of the crisis, we are investing in skills and human capital, notably for young people who were particularly hit by the crisis, in order to lower the unemployment rate and facilitate the reallocation of resources.

In the coming months and years, I identify three priorities to make the European recovery plan a success and for it to boost potential growth. We should ensure the adoption of the recovery and resilience plans of the remaining Member States to foster a coordinated rebound. The value of the Recovery and Resilience Facility is to deploy a coordinated recovery strategy. We need to invest collectively and massively in sectors rich in growth and jobs, while ensuring that each plan adopted fully respects the Regulation criteria.

We must also ensure that disbursements of the European recovery plan materialize swiftly. France has already committed €36 billion of the France Relance plan, but other Member States are waiting for European funds to finance the stimulus. Thus, it is up to the Commission and Member States to strike the right balance between the oversight necessary to ensure a proper implementation of the plans and the flexibility and pragmatism necessary to ensure swift disbursements that will be beneficial to European economy as a whole.

Finally, it will be crucial to guarantee that the measures included in plans, notably the ones addressing the structural challenges identified in the country recommendations, are effectively implemented. This is key to reduce persisting macroeconomic imbalances as well as to ensure that EU funds effectively boost potential output growth. As for France, our plan pursues the ambitious reform agenda launched by President Macron in 2017. Among others, the Climate and Resilience law will accelerate the climate transition and the law to accelerate and simplify public action will simplify the regulatory environment for businesses.

We can be proud of what the EU has achieved during this unprecedented economic and health crisis.

The European economy is recovering but there is still a long way to go before we reach the pre-crisis growth trends. This is the next challenge Europe has to tackle and this will be one of our common priorities during the French Presidency of the European Union starting in January 2022. The responsibility of Member States and the Commission is to make the recovery strong and sustainable. To this end, as we emerge from the crisis, we must prove our ability to coordinate our economic policies, as ambitiously as we did at the height of the crisis.

HARALD WAIGLEIN

Director General for Economic Policy, Financial Markets and Customs Duties, Federal Ministry of Finance, Austria & Chair, FSC

Ambitious implementation of recovery plans is a joint responsibility

With the majority of recovery and resilience plans already endorsed by the Council, two more positively assessed by the Commission and the pending approvals expected after the summer break, the Recovery and Resilience Facility (RRF) is approaching its implementation phase in large strides.

While no conditions are imposed on the first disbursement of RRF funds, in the form of 13% pre-financing of the allocated amount, the following pay-outs are tied to the successful fulfilment of agreed upon milestones and targets. Indispensably, member states, which have not yet put in place the required governance and control structures, need to do so before their first regular request for payment. These structures are vital to ensure proper implementation and monitoring of Recovery and Resilience Plans (RRP) as well as to ensure the correct use of the funds.

The RRF, with an envelope up to € 672.5 billion, will give a sizable recovery boost to the pandemic-stricken EU economy, with a focus on the green and digital transition. Due to the requirement that RRPs address all or a significant subset of country-specific recommendations, the RRF provides incentives for reforms and holds the potential to increase the efficiency of the EU Semester.

If the RRF fails to meet its objectives, there will be budgetary as well as severe political repercussions for the EU. Thus, ensuring effective and ambitious implementation of RRPs is key to its success. The performance-based nature of the instrument, with milestones and targets reflecting progress with reforms and investments tied to disbursements, is intended to mitigate some implementation risks, e.g. those linked to changes in government.

Yet, challenges remain with regard to the implementation of certain key structural reforms with relatively unspecific milestones. This concerns reforms of pension systems and labour markets, which require social partner involvement and therefore impede clear ex ante commitments by governments. In these cases, the Council has to rely on a strong role by the Commission to ensure flesh is put on the bone. Another threat that may undermine the objectives of the Facility is the backloading of certain reforms towards the end of the plan, which diminishes peer pressure and foregoes some of the positive growth impact from the RRF.

Overall, I see three main areas of concern that pose a risk to the effective and successful implementation of RRPs. First, absorption capacity in conjunction with administrative capacities will pose a key challenge in member states with a high allocation. In a welcome step, many member states, with a history of comparatively low absorption rates of EU funds, have passed or committed to pass important enabling reforms to strengthen the administrative capacity and efficiency of the public sector.

Second, funds will need to be channeled into the productive parts of the economy and viable businesses to support green investments and gain ground in the race for digitization. SMEs will indirectly also benefit from reforms liberalizing the business environment. Third, national control systems will be put to the test.

The milestones and targets agreed by the Council shall not be watered down.

The Commission shall apply the necessary stringency when it comes to payout requests, only approving them when all the proposed milestones and targets have been completed. But peer pressure and the scrutiny of the European and national Parliaments are also important. The milestones and targets agreed by the Council shall not be watered down.

As a final note, the question of how the mutually guaranteed EU debt will be re-payed cannot be left out of sight. Recently, doubts have emerged over the three proposed new "own resources", among them the now postponed EU digital levy, which should have been used to repay joint NGEU debts. Facilitating a timely redemption of the debt is imperative, otherwise the next generation will be left to pay the bill.

ALESSANDRO RIVERA
Director General of the Treasury,
Ministry of Economy and Finance, Italy

Unlocking Italy's growth potential

Italy's Recovery and Resilience Plan (RRP) is the outcome of a long and complex preparatory work. It is a substantial plan in terms of scope, ambition and innovation. It is fully consistent with the goals of the European Green Deal and the six pillars of the Recovery and Resilience Facility (RRF) Regulation. In addition to the full utilisation of RRF grants, the Italian government has applied for the maximum allowable amount of loans from the facility. Including 13 billion from REACT-EU and 30.5 billion from a dedicated national fund, the plan is worth 235 billion euros, or 12 percent of GDP[1].

The RRP tackles Italy's structural economic and social issues, as well as the global challenges of the green and digital transitions. Indeed, its three strategic axes are digitisation and innovation, ecological transition and social inclusion. The digital transition will absorb almost 30 percent of the available resources, while the green objectives will take up 40 percent of the funds. Moreover, the Plan addresses three horizontal priorities: gender equality, youth employment and regional cohesion. The South will receive 40 percent of the 206 billion available for distribution according to geographical criteria.

The RRP also includes a broad reform program that addresses most of the 2019-2020 Country Specific Recommendations (CSRs) from the EU Council. The key structural reforms in the RRP aim to improve the efficiency of the justice system, the functioning of the public sector and the quality of services provided to firms and citizens. A second cluster of reforms focuses on promoting competition, simplifying bureaucratic procedures and enhancing the planning, approval and execution of public investment and infrastructural projects. Finally, the government will deliver to the Parliament an enabling legislation proposal to reform the tax system and a draft reform of active labour market policies.

Successful implementation of the RRP will improve Italy's public debt sustainability through higher real GDP growth. According to the commonly agreed estimation method, before the pandemic Italy's potential growth rate was 0.6 percent. A prudential assessment of the RRP is that it will raise the growth potential to 1.4 percent, with 0.5 percentage points of the improvement coming from increased investment and 0.3 from structural reforms. The projected growth rate in the early years of the Plan will be significantly higher than the potential one, as unused factors of production are put to work.

As far as the numerator of the debt ratio is concerned, projects financed by RRF grants will not affect gross public debt. Only 44 percent of RRF loans will be debt creating with respect to existing budgetary plans. Moreover, the government has committed to prudent management of the public finances and to discontinue extraordinary fiscal support measures as soon as the Covid-19 restrictions are lifted. Over the next six years, net borrowing of the general government will consistently decline. The debt ratio will return to the pre-crisis level by the end of the decade.

Given its breadth, ambition and resources, the RRP will pose significant implementation challenges. In the past, Italy has shown a relatively low absorption capacity of European Structural Investment Funds (ESIFs). A mixture of bureaucratic obstacles, multiple decision-making levels, veto powers and legal uncertainty have hampered the planning and execution of public investment and infrastructure development. Furthermore, the rush to absorb funds in the final stages of EU budgetary cycles has affected the quality of public investment expenditure.

The Recovery and Resilience Plan will boost GDP growth and the green and digital transitions.

In order to overcome these issues, the government will put in place a lean but carefully designed governance structure and a series of reforms aimed at reducing administrative and bureaucratic bottlenecks.

Stronger growth and healthy public finances are the two key goals of Italy's economic and financial policy. We will spare no effort to ensure that the RRP's potential to revitalise our economy is fully realised.

[1] The ratio uses the average nominal GDP level projected for 2023-2024, the middle years of the Plan.

IRENE TINAGLI

Chair & MEP, Committee on Economic and Monetary Affairs, European Parliament

Recovery and resilience facility: new challenges and new opportunities

With the approval of the first bunch of National Recovery and Resilience Plans by the ECOFIN, we are finally at a decisive milestone in the European strategy towards the Recovery. The Union showed all its strength in finalizing this process. This is part of a worldwide extraordinary effort towards the recovery: according to the IMF, the global economic contraction recorded last year would have been three times worse without such swift and worldwide policy support.

So far, we have been able to avoid a multi-annual deep recessions, which may have had long-lasting effects on potential output. Thanks to fiscal and monetary actions, we contributed to prevent structural damages to the economy, avoiding a generalized tightening of credit and preventing the destruction of viable physical, intangible and human capital. Now, we are entering in a new phase in Europe, we are facing a new time, named after the two evocative pillar of our Recovery strategy: “Recovery” and “Resilience”. “Recovery” and “Resilience” represent ambitious targets for the Union as a whole. These two objectives are and must be interconnected, but they also require diversified approaches and tools, and each will have to be evaluated with appropriate criteria.

The RRF is an essential part of the necessary response to the risks of disintegration of the single market. But it is only a part. “Recovery” and “Resilience” requires something more than an ambitious program, and call into question national and supernational economic policies. Their design is fundamental for the future of the Union. This time, even more than in the past, we cannot make mistakes.

The phase we have ahead still shows much of the uncertainty we have been experiencing over the last time. We should been able to swift implement measure and economic support on the basis of local lockdown or severe impact on some sectors of the economy, but we should also be able to reflect about the medium term, avoiding cliff-edge effects, which may endanger what we have achieved so far. At the same time, our thinking should also be concentrated over the new “business as usual”. There are new challenges and new opportunities to be seized, from the digital transformation to the ecological transition. This is what is behind the Recovery and Resilience Facility.

So far, a lot of attention has been devoted on what are considered the structural problems pre-existing to the pandemic and on the policies to be implemented to overcome them in order to achieve a permanently higher level of production and employment. Of course, this is not wrong, but it may not be enough if the specific structural effects of the recession on production methods, on the composition of aggregate demand or on citizens’ expectations for the future are also hampering recovery. These new structural effects must also be considered when we discuss about economic policies. There are a number of the areas where we realised the importance of further action: infrastructures for home-based education and work, investments, including in digital, for the whole public administration, a more local-focused approach in the designing social infrastructure and the resilience of the health care system.

Recovery and resilience call into question national and supernational economic policies.

A crucial pillar of the reflections over the next years is represented by the challenge relates to medium-term fiscal sustainability. Here the challenge is to find the correct national and European fiscal stance in the coming months and years. On the one hand, we must avoid that fiscal consolidation happens too soon, because this could undermine the economic recovery in the short run and the growth potential in the long term. But at the same time, we must avoid that fiscal consolidation is postponed indefinitely, because we would risk facing a possible new crisis without adequate margins for manoeuvre. For this reason, it would be important that the debate on the review of macroeconomic governance precedes the deactivation of the general escape clause, as the European Fiscal Board well pointed out last year in its report.

A clear predictability on the budgetary rules is important not only for the sustainability of public finances, but also - and above all - to give a multi-year perspective to national governments in their choices regarding spending and investments, a key element to achieve a strong recovery and to foster the resilience of our economy.

VITORIO GRILLI

Chairman of the Corporate and Investment Bank EMEA, J.P. Morgan

NGEU as an instrument for increasing medium-term sustainable growth in the EU

The NextGenerationEU (NGEU) recovery plan could be an important instrument for deeper European fiscal and political integration. Developed with the COVID-19 crisis in mind, NGEU's focus on investment could be a game-changer for Europe's economic growth dynamics and could help lift the continent out of secular stagnation. It also has the potential to contribute towards broader EU priorities, such as the internationalisation of the euro and improving the EU's future competitiveness.

I have quoted these figures before, but average annual (inflation-adjusted) growth in EU investment declined from c.3.4% (1999-2007) to c.2.6% (2011-2019), before the COVID-19 crisis. The euro-destabilising variance in investment across Member States has been even more dramatic across the same period.

With their long tenors, NGEU loans could be an excellent vehicle for Member States to invest in projects that take longer to yield returns, most notably improving the quality of STEM-focused education. This could be particularly helpful for countries which have experienced negative average investment growth over recent years, such as Italy, Greece, and Portugal, and help bring GDP growth in-line with the rest of the EU. Even France and the Netherlands have seen a decline in investment growth of nearly half.

As such, it's important to avoid creating a stigma around the NGEU loans and ensure that Members States want to use them. Such incentivisation would be best achieved by appropriately pricing loans with rates based on simple, clear, and time-consistent formulas that do not risk creating large payment fluctuations for Member States.

To maximize the NGEU's return on investment, it is not only important that the use of proceeds is done properly, but also that the source of funding is fit for purpose. The Recovery and Resilience Facility's focus on the green and digital transition will support post-pandemic methods of working, with investment in rapid broadband and 5G connectivity; both 'flagship areas' identified by the European Commission where investment and reform should focus. We look forward to the publication of the NGEU Green Bond Framework in September. We expect green bond issuances to start thereafter, comprising 30% of the entire NGEU Fund and boosting the climate transition by up to €250bn. This should allow the EU to further diversify its investor base, boost the green bond market and demonstrate the EU's commitment to long-term sustainable finance.

Both the European Commission and Member States should remain serious about committing to the reforms outlined in their recovery and resilience plans, as those by themselves tend to greatly enhance productivity. For instance, Italy's reform of the judiciary is set to substantially lower the effective cost of doing business in the country, freeing up resources currently tied up in unproductive activities, increasing investment and productivity, and supporting asset prices (e.g. real estate).

Premature fiscal or monetary tightening should be avoided as this would reduce the progress the NGEU could make. The policies and reforms announced need to work together to be successful and most importantly give the EU economy enough "escape velocity" to leave its secular stagnation behind for good.

It's important to avoid a stigma around NGEU loans and ensure that Members States want to use them.

JPMorgan was proud to be among the financial institutions included as part of the EU's Primary Dealer Network, announced at the end of May, as well as joint-lead managers on the second NGEU transaction this year and the SURE transaction in 2020. Investor interest was strong for the most recent NGEU transaction, which was more than eleven times oversubscribed and with bids exceeding €170 billion. Consequently, this translated into favourable pricing conditions for the Commission.

Operating in the region for close to 200 years, our commitment remains unwavering and we endeavour to continue supporting the deployment of the Recovery Fund. We are confident that the European Commission will continue to work with best-in-class institutions to be well-positioned for successful issuance in different market conditions.

WERNER HOYER

President, European Investment Bank (EIB)

Accelerating a green, digital recovery in Europe after COVID-19

The digital transition

The pandemic has exacerbated the digital gap between European companies. Firms that already had a strong digital presence maintained contact with their clients, suppliers and employees when European economies were forced to close. Without a digital presence, firms shut for weeks or months on end and are struggling to survive. Beyond that, the failure to adopt recent digital technologies weighs on firms' competitiveness: firms that have implemented advanced digital technologies tend to perform better than non-digital firms.

European Investment Bank research shows that median labour productivity is 37% higher for digital firms in Finland – the country with the highest digital adoption rates in the EU – than for non-digital ones. In addition to innovating more, these companies also invest more, have better management practices, grow faster and create higher-paying jobs. European companies are global leaders in many traditional industries. They are less of a presence in fast-growing digital sectors. Unlike China and the US, the European Union doesn't appear to be investing enough in research and development to generate new digital leaders.

Europe's weakness in digitalisation could jeopardise its long-term competitiveness and also have negative consequences for European strategic autonomy.

The pandemic has also exposed stark differences in digital skills. To strengthen access and inclusion in learning, we need to focus on equipping young people and adult learners, teachers and businesses with digital skills.

Research by the European Investment Bank Economics Department shows that skill gaps pose persistent barriers to investment. In recent years, more than 70% of firms have reported skill gaps as an obstacle.

The COVID-19 pandemic has reinforced the need to transform skills, accelerated structural shifts and raised unemployment risks. Scaling up investment in skills is essential to mitigate the polarization of labour markets across the EU and the risks that structural unemployment may increase regional inequality.

The need to accelerate the green transition

The digital transition can support and accelerate the fundamental green transition to a net zero-carbon economy. The climate crisis is the defining challenge of our time, but we are moving too slowly. Over the next decade we need to transform the way our economies produce goods and use energy. This means investing heavily in innovation and technologies that don't yet exist, improving education and infrastructure, focusing on projects that help us adapt to environmental changes and supporting a just transition. To achieve the 2030 greenhouse gas reduction goals, we need an estimated €350 billion in extra investment annually — going to the right sectors. The European Investment Bank will play its part by mobilising €1 trillion of climate action and environmental sustainability investment by 2030. Let's not forget, we have a lot to gain by addressing climate change. A group of countries representing half the world's greenhouse gas emissions have already adopted net-zero carbon targets. Others will surely follow.

They will all need technologies and investments to meet their climate goals. Solutions and products that support clean hydrogen, offshore renewable energy and energy storage could, therefore, all become vibrant European export sectors.

The twin challenge of digitalisation and climate change must be cornerstone of the EU's recovery.

The way forward

The European economy faces a twin transition. Increased digitalisation is conducive to a green transition, innovation and a more cohesive European economy. To accelerate digital innovation and the adoption of green technology, Europe should focus on three elements:

i) an enabling and supporting ecosystem to foster the birth and growth of innovative companies;
ii) the right kind of financial support for investment in companies at different stages of development;
and iii) a European vision to counter existing imbalances across the European Union in terms of skills and the adoption of digital and green technologies.

Addressing the challenges of climate change and digitalisation is key to sustainable growth.

Europe needs to make it happen now.

PIERRE HEILBRONN

Vice President, Policy & Partnerships, European Bank for Reconstruction and Development (EBRD)

Recovering sustainably from the Covid-19 crisis in the CEE region

The economic crisis precipitated by the Covid-19 pandemic has had a profound and damaging impact on the EBRD's Countries of Operations. Across our regions, output has contracted, foreign investment has declined, and public debt has increased dramatically.

When we take a closer look at some of the countries in Central and Eastern Europe (CEE), however, a more nuanced picture emerges. Slovenia's economy was significantly impacted in 2020, with GDP declining by 5.5% while in the Czech Republic, robust pre-Covid-19 growth was followed by 5.6% reduction in GDP in 2020, qualifying as a "one in 25 years event". In Hungary, GDP declined by 5% in 2020, while the recession in Poland turned out to be milder than anticipated, with GDP contracting by 2.7 % in 2020, mostly due to its diversified economic structure and generous public.[1] There are some signs of recovery, however. At the time of writing, output in Central Europe and the Baltic (CEB) states is projected to increase by 4.8% in 2021 and 4.6% in 2022.[2]

Throughout the crisis, the EBRD has supported economies not only through our investments but also by providing governments and other state institutions with high quality, straightforward and usable policy advice. While vaccination programmes across Europe begin to ramp up, and the end of ongoing strict lockdowns appears to be in sight, it will take many years for the European economy to recover from the shock of the pandemic.

The €750bn EU recovery package, known as Next Generation EU, in addition to the more than €1tn EU budget for 2021-2027, are therefore crucial for the recovery in Central and Eastern Europe. Some have argued, given the scale of the crisis, these funds are not large enough, but one cannot deny that they could help catalyse the transformation to a more green and digital economy.[3] They are likely to add between 0.6 and 1% to annual GDP growth rates in the CEB region, depending on the use of the funds. So effective mobilisation by member state governments will be critical. The recovery funds seem to focus on raising potential growth and improving long-term fiscal sustainability rather than achieving short-term fiscal stabilisation.[4]

Used properly, Next Generation EU can help to deliver a genuine, social and sustainable European economy. Countries now need to take advantage of the recent tentative economic upswing and take steps to mobilise additional private sector funds to "build back better" towards more inclusive, digital and green economies. These broad themes should underpin every aspect of the recovery - but we also need to get the basics right. We cannot layer a vibrant green bond market on top of an underdeveloped or illiquid capital market. EBRD recognises this and is assisting CEE countries in strengthening capital markets infrastructure, diversifying the local investor base, crowding in private sector investors (and not just the international big-ticket players), and promoting the expanded issuance of securities in domestic markets and in local currency.

The region will see an uneven recovery from the pandemic but EU recovery packages will help.

A stable foundation will help countries in the region to develop resilience against any further shocks down the line. If the pandemic has taught us anything it is that we should always be prepared for the next crisis. This requires a more holistic view of what it means to recover sustainably: not just relating to environmental challenges but social and corporate governance aspects as well. Not only focused on digital developments, but innovation and research too. The crisis was a universal yet uneven shock to the globe; we must recognise those asymmetries as we re-emerge from it. We have a rare chance now to change our economies for the better - let us hope we do not squander the opportunity.

[1] *"Regional Economic Prospects: Recovery Gathering Pace" (EBRD, June 2021).*
[2] *"Regional Economic Prospects: Recovery Gathering Pace" (EBRD, June 2021).*
[3] *https://www.spglobal.com/ratings/en/research/articles/210427-next-generation-eu-will-shift-european-growth-into-a-higher-gear-11929949*
[4] *https://blogs.lse.ac.uk/europpblog/2021/05/18/the-eus-recovery-funds-should-be-released-when-europes-economies-can-reopen/*