Q&A

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Common EU policies key to put our economies on the track of sustainable and inclusive growth

How to ensure that the Next Generation EU recovery instrument effectively contributes to increasing medium term sustainable growth across EU Member States? How to avoid its use for recurring public expenditure?

The Recovery and Resilience Facility (RRF) has a clear long-term orientation. As in the aftermath of any crisis, the sources of prosperity are likely to change. The pandemic came and profoundly affected our lives on top of other trends, such as climate change or digitalization.

The strength of the RRF is that it supports a transformational recovery. The main priorities are the green and digital transitions, where each national plan has to meet investment targets of 37% and 20% respectively. Yet, to make sure that the recovery is not short-lived but raises our growth potential, investments are not enough. The RRF pays equal attention to reforms and to meeting the challenges identified in the country-specific recommendations in the context of the European Semester. I think we can all be satisfied with the quality and ambition of Member States' plans. Implementation will require sustained efforts. On this, we have a clear and transparent process ahead of us. Each plan contains the path of milestones and targets chosen by each Member State. This will be the yardstick for assessing progress and delivering payments.

You mention recurring expenditures. The RRF Regulation is clear that support from the Facility should finance measures with a long-term impact and orientation. The Commission has followed this principle closely in is assessment of Member States´ plans. Some recurring expenditures can exceptionally be eligible if they are linked directly to the delivery of the reforms and investments in the plan and are temporary. For the plans approved until now, the share of recurrent expenditure is minimal.

Which types of reforms and investments are needed for boosting potential growth across EU Member States?

The Commission laid out the main priorities in its Annual Sustainable Growth Strategy back in September 2020. We identified seven flagship areas: "Power up" for the development and use of renewables and clean technologies. "Renovate" to improve the energy and resource efficiency of public and private buildings. "Recharge and refuel" to accelerate sustainable, accessible and smart transport. "Connect" to deploy fiber and 5G networks with the widest possible territorial coverage. "Modernise" to make digital public services accessible to all and develop EU-wide electronic identification and authentication. "Scale-up" to increase European industrial data cloud capacities and develop powerful and sustainable processors. And last but not least, "reskill and upskill" to help citizens get the knowledge and training they need to take advantage of the opportunities presented by the green and digital transitions, and help smooth labour-market transitions. Those dimensions are also reflected in the six pillars of the RRF Regulation to which all Plans need to adhere.

I would like to emphasize particularly the importance of human capital. As I mentioned before, some sectors will thrive after the pandemic and many others will have to adapt their business models. In this context, we must help workers to gain the skills required to thrive in the new growth sectors. This is not only a question of social inclusion, which is key, but also of economic potential, as we must address the skills shortages and develop our human capital to be able to seize future opportunities. That is why we have provided guidance to Member States to gradually move from the short-time work schemes, which have proven so effective during the pandemic, into active labour market measures

I am happy to say that Member States have overwhelmingly agreed with our priorities and most plans have projects across all of the seven flagships, including in the form of multi-country projects. We will track progress carefully on all of them.

With what mechanisms can Europe correct over time the growing heterogeneity of fiscal performance between euro area countries?

Limiting the extraordinary impact of the pandemic necessitated sizeable supportive fiscal measures. The General Escape Clause, which will continue to be active in 2022 and be deactivated as of 2023, plays an important role in that. While the economic outlook is now brighter, with the Commission forecasting GDP growth of 4.8% in 2021, the speed of recovery differs across countries. Some member states will go back to pre-crisis levels of GDP already this year while for others this will be next year.

We therefore need to maintain supportive fiscal policies this year and next. At the same time, fiscal policies should become more differentiated. Once economic conditions allow, fiscal positions should resume their structural improvement. This is at the heart of the guidance we gave Member States ahead of the preparation of their 2022 budgets, as part of our coordinated fiscal policy.

Unavoidably, the crisis and the supportive measures have led to a substantial increase in debt levels. While divergences across countries have further increased, this is not new. Already when we launched the economic governance review early last year, we noted that debt levels had remained stubbornly high in a few high--debt Member States, while they had on average declined over the last decade.

This will be a key issue when we return to the debate on the economic governance framework. We need a credible debt rule that works for all. Linked to that is the need to make use of good economic times to allow for additional spending in bad times.

Also improving the quality of public finances will matter. This will allow structurally improving fiscal positions and, at the same time, catering for the various needs. First, it is important for the Recovery Plans (RRPs) to include measures that improve the quality of public finances and support fiscal sustainability, and clearly distinguishing one-off from recurrent expenditures. Second, there is a link with the debate on the treatment of investment in the fiscal rules. I actually see this as a broader issue. We need an overall improvement of the composition of public finances, so that it is compatible with a gradual reduction of deficit and debt levels where those are high. We need to see what parts of our economic governance framework could be used to achieve this, without adding further complexity.

Finally, divergences in fiscal positions are also the result of differences in economic performance. Remedying this will be key, with the help of Next Generation EU. It is a key responsibility of Member States to boost growth and productivity with the help of the RRF and other EU funds.

What are the key structural challenges that the CEE region is facing in terms of growth and financing of its economy? How has the economic situation evolved with the pandemic? What impact can be expected from the Next Generation EU recovery package in the region?

The structural challenges of the CEE region, and of the EU economy as a whole, are well known thanks to the European Semester process. Let me just highlight one element that is relevant for future prosperity: the need to raise productivity growth and lift income levels for all. The country-specific recommendations for member states in the CEE region include many elements that can help to achieve this: skill improvements, active labour market measures, improvements in the business environment, the removal of investment bottlenecks, innovation policies and access to finance especially for SMEs.

The COVID-19 crisis has exposed and exacerbated many of those existing challenges. It has raised the stakes and the urgency of structural transformations. But the crisis has also given us an opportunity to agree on bold solutions and accelerate the adaptation of our economies. The RRF tackles these challenges head-on as we integrate principles of environmental sustainability, productivity, fairness and stability in member states' RRPs.

This is especially the case for the CEE region who will be among the biggest beneficiaries of the RRF as the allocation key takes also into account the inverse of the country's GDP per capita.
Specifically, regarding access to funding, particularly for SMEs in the CEE region, further progress in completing the Banking Union and the Capital Markets Union will be crucial.