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Speech

It is a really extraordinary and sad day. This morning, we all awoke to news that turned our blood cold. We have seen scenes that we believed and hoped would remain in history books: air-raid sirens wailing in the capital of a European democracy, tanks crashing across the borders of a neighbouring country, missiles shattering apartment blocks and civilians lying dead in the streets of European cities. Even if the warning signs have been all too evident, this is still profoundly shocking and profoundly wrong.

Our message to President Putin in response to this outrage is unequivocal: you will not succeed. The rule of force will not prevail on the rule of law. You will not divide us. We stand united with the people of Ukraine and, as President Von der Leyen announced earlier today, the Commission is putting on the table for discussion at the European Council meeting in two or three hours from now in Brussels a new package of massive and targeted sanctions that will limit Russia's access to capital markets and to technologies crucial for the Russian economy. It is clear that these events will now dominate the ECOFIN meeting tomorrow too. Our discussions will not take place in a normal environment. The environment will be clouded by incredible uncertainty.

Nonetheless, let me turn to the subject of the big issues that we have to confront in our economies, despite this new, enormous, geopolitical uncertainty – les grands enjeux, if you will, that we have ahead of us. I think we have three main challenges: first, delivering on the green and digital transition; second, enhancing Europe's resilience in the face of geopolitical and strategic challenges; and third, ensuring our labour markets and skills are fit for purpose. These challenges will compel entire sectors to undergo major transformations. They will require us rethinking our supply chains and will demand new skills as well as reallocation of the labour force. It will not be easy and it will not be cheap to address these challenges.

The additional investment needs to achieve the twin transition, for example, are, in our estimates, around €650 billion per year from now until 2030 – almost 5% of EU gross domestic product (GDP). Boosting our capacity in strategic sectors like batteries, semiconductors and cloud technology will require hundreds of billions of euros in investment by the end of the decade. Making sure that no workers are left behind and that everyone can thrive in this new landscape will call for increasing spending in education, upskilling and reskilling. It is daunting, no doubt, but necessary to make our economies more sustainable, more competitive and more resilient – in other words, necessary if we are still convinced we should build back better.

It is in this context that, in my opinion, we should look at reviewing our economic governance in the Union. The experience of the past decade has exposed the limits of our common framework. In the wake of the last crisis, public investments in Europe bore the brunt of budget cuts and fell to zero in net terms. Too quick fiscal consolidation stopped the recovery in its tracks and opened a period of low-for-long growth. Our framework also failed to encourage governments to build fiscal buffers in good times, nor did it succeed in stimulating demand in those countries that had the fiscal space to invest.

In spite of significant efforts and in spite of respecting the deficit limit of 3% of GDP, public debt ratios did not decline sufficiently, as prescribed by the Stability and Growth Pact (SGP), and so this increased the divergences between debt levels in the EU, even before the pandemic hit our economies. Finally, our fiscal rules became much too complex. I am always fascinated by the definition given by one of the most senior officials in the Commission working with these rules, who compared them to the Sagrada Familia.

The challenges we face have only made the need to discuss our economic governance more pressing and acute. The first challenge concerns the vastly increased investment needs that I already mentioned. Of course, the Recovery and Resilience Facility will be a big help, but it will not be enough, and we must bear in mind that this instrument has a limited lifespan of up to 2026 for its conclusion, which is tomorrow. Nationally funded investments will, therefore, continue to play a key role.

The second challenge concerns the pandemic's legacy of much higher debt levels. Let me be clear: in my view, it should also be a priority to have a clear path to lower debt levels, not least for highly indebted member states. Sound public finances are essential. Continued fiscal adjustment over several years, combined with investments and reforms, is needed to sustain growth in high debt member states. The rebuilding of fiscal buffers needs to be gradual. Too abrupt a consolidation would undermine the recovery, with negative effects on potential growth and market sentiment and, ultimately, on debt sustainability. This message is, of course, all the more important given today's developments, despite the fact that we still do not know how these developments will influence the macroeconomic picture.

When looking to the ongoing review of our rules, I am confident that reconciling the investment challenge with the debt challenge is possible, if we design a true Stability and Growth Pact, not a stability or growth pact. This means upgrading our framework to encourage growth-enhancing investments. It means revising our rules to make sure we bring down high debt levels in a gradual and realistic way. There is no other way to bring down high-level debt, as, unfortunately, the years behind us show. Stability without growth is illusory. Growth without stability is unsustainable.

Two weeks ago, we celebrated 30 years since the signing of the Maastricht Treaty, and this summer will mark 25 years since the birth of the Stability and Growth Pact. Our fiscal rules are a reflection of the economic and political circumstances of their time. It is only natural that they should evolve and be adjusted to today's very different circumstances and the new challenges we are facing. That is what led the Commission, last autumn, to reopen the review of our economic governance. I am encouraged by the constructive spirit in which this debate is taking place, of course with all the unknowns that the new situation is bringing. Next week, we plan to publish a communication that provides guidance for fiscal policy in 2023, which will need to take into account this increased uncertainty. Before the summer, we will set out our proposals on the review of the rules.

Ladies and gentlemen, the pandemic was a reminder that we are all in the same boat. Europe's response to the unprecedented recession of 2020 was successful, and I think we should be proud of that. Everyone – national governments, EU institutions, finance ministers and central bankers – rowed in the same direction. Looking ahead, I am convinced that we can achieve our ambition for strong, sustainable and inclusive growth in Europe, provided we continue with this spirit and provided all our policies and tools are geared towards this goal. This must include our Stability and Growth Pact. We cannot tackle the challenges of tomorrow with the tools of yesterday. We have to show that we are able to move beyond the old divides and write this new chapter together, so let us show the world that, here too, Europe stands united. Thank you.