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Speech

Ladies and gentlemen

Thank you to Eurofi for inviting me to this flagship conference.

It is an extremely worrying time.

Europe is facing an unprecedented act of aggression by Russia targeted against a sovereign and independent country.

We condemn this invasion in the strongest possible terms.

This is about the sovereignty of Ukraine, a democratic country that is free to choose its destiny.

It is about the entire security architecture of Europe.

We are taking immediate action against this gross violation of international law.

President von der Leyen will present a new set of sanctions which EU leaders will discuss now in Brussels. This is going to be a massive and severe counter-reaction to this Russian aggression.

And this is just one rapid step which we are taking.

Given the sheer scale of Russian aggression, we will need to do even more. We will need to go even further and take further action to counter this aggression and to support Ukraine.

Nothing should be off limits. This is a watershed moment. This is a moment of truth.

Either we come up with a strong and united response – and do it now.

Or we risk moving from a world of the rule of law to a world where the only rule is 'might is right'.

Russia poses a real threat to the free world.

We should not be naive about this.

We should rethink our relations with Russia across the board.

With this aggression, Russia is turning itself into a pariah state.

All of you here this evening representing the financial sector also have a share and responsibility. As you know, the sanctions we are imposing against Russia also cover the financial sector.

Your companies and sector are critical in this as well.

The EU continues to stand, without hesitation, by Ukraine.

We will need to do all we can to support Ukraine and provide all possible aid - political, financial and humanitarian. This is not a competence of the EU - but also military.

Ukraine's needs will be overwhelming. So this EU support will have to be massive.

As you know, the EU recently announced €1.2 billion in emergency macro-financial assistance to Ukraine. And we are now moving fast to disburse the first tranche of €600 million.

But we are in a different world now.

To give you some figures: before Russia's military build-up on the Ukrainian border, there were estimates that the financing gap Ukraine is facing today is around €2.5 billion.

After Russia's military build-up, this financing gap was around €5 billion, because the very fact of the military build-up leads to the loss of investor confidence and complicates access to financial markets for Ukraine, puts Ukraine's currency hryvnia under pressure and depletes central bank reserves.

Right now, the financing gap is basically off scale.

We cannot estimate it now because events are unfolding.

But it is clear that also in our response we will need to think outside of our current framework. There will have to be much larger scale support which we need to provide.

Moving to the part of my speech which I was intending to deliver before these last events:

At this stage, it is difficult to calculate the impact on the EU's economy.

Russia's invasion has jolted financial markets and heightened uncertainty at a time when the EU economy already faces several risks such as rising energy prices and inflation.

This crisis shows the importance of Europe remaining united, strong and resilient.

And sticking to our policies: because they are working.

Despite everything, our economic fundamentals are solid. The EU economy has regained all the ground lost during the crisis. Unemployment is at a record low.

In itself, this is a major

achievement – and it is largely thanks to successful vaccinations and our coordinated economic policy response. The European Commission's winter forecast projects a rise of 4% in GDP this year following a significant 5.3% rebound in 2021.

However, there are still many risks and Russia's unjustified invasion of Ukraine strongly increases those risks. So this is something we need to monitor very closely.

Our strong fundamentals will be boosted further as countries start to put their Recovery and Resilience Plans into full effect.

It is important to maintain the close economic policy coordination that helped us to go through the worst of the crisis.

The EU will only be able to achieve its ambitions within the green and digital transitions by coordinating across the board: with national and EU authorities, Member States and - most importantly - with the private sector.

All our policies and instruments should work together coherently.

Let me just name a few elements, which you will also discuss in the next sessions.

First, we need to make good use of existing EU instruments.

Here, the Recovery and Resilience Facility can play an important role, along with other EU funding: from the Multiannual Financial Framework, InvestEU or European Investment Bank instruments.

The RRF presents a unique opportunity to encourage both public and private investment. Public funds combined with reforms can be instrumental for unlocking future-oriented private investment.

The investments and reforms identified in each national recovery plan will improve the business environment, reduce regulatory barriers and administrative burdens for businesses.

By financing additional high-quality investment on top of national investment, it will help to raise Europe's growth potential and support fiscal sustainability.

It gives a clear sign that we want to make our economies fit for the future. Large amounts of RRF loans are still available, giving the option of more support to Member States which wish to use them.

Then there is the role of fiscal policy, which should stay moderately supportive in 2022.

As you know, we expect the general escape clause of the Stability and Growth Pact to be deactivated in 2023.

All Member States need to re-evaluate their economic and budgetary strategies for the post-pandemic crisis era.

There is a broad agreement that a key objective of coordinated EU fiscal policy is to preserve fiscal sustainability.

This means reducing debt and rebuilding fiscal buffers. Both will determine how well we can respond to future economic shocks. This applies particularly to Member States with high debt levels.

But it also matters exactly how this debt reduction is carried out.

Given the green and digital transitions and the need to boost the EU's growth potential, the relevance of reforms and high-quality investment has become even more apparent.

We need both elements - to reduce debt and to invest - at the same time, if we are to enjoy a lasting recovery based on sustainable growth.

This underlines the importance of improving the composition and quality of public finances, once again, especially for high-debt Member States.

We should also remember that for whatever purpose any additional expenditure is used, the related debt will eventually have to be repaid.

We will shortly provide Member States with guidance on fiscal policy for 2023.

It will reflect the global economic situation, the specific economic and budgetary situation in each country and our broader discussion on reviewing the EU's economic and fiscal governance.

This brings me to the future of the EU fiscal rules. As you know, discussions on the economic governance review are ongoing. The primary objective remains to preserve fiscal sustainability.

There are two main elements that we need to combine, as I said: credible reduction of debt and high-quality investment. We do not envisage changing the 3% and 60% reference values of the Treaty. The main question is how fast debt should be reduced.

The EU fiscal rules should support this process without falling into the trap of becoming too complex – and without creating exemptions that make the whole set-up ineffective.

We will be looking at the so-called 1/20th rule and see how we can ensure more credible yet more gradual and realistic debt reduction pathways.

I know this it is a difficult balance to strike. But I am confident that we will be able to come up with a good way forward.

Ladies and gentlemen

We should obviously look beyond the public sector to meet our investment needs. It will clearly be the private sector and private investments that drive the adjustments and transformation.

This brings me to the last element: the importance of having a resilient financial system.

The reforms that we have put in place in the past few years can help the EU financial sector to withstand the kind of market turbulence that we are seeing now.

The right conditions must be in place to generate the financing that Europe needs for the future, so that we can:

- advance towards a sustainable recovery;
- meet the goals of the green and digital transitions;
- build strong job-rich economies;
- keep EU companies globally competitive.

Here, I am referring in particular

to our overarching goal to promote the openness, strength and resilience of Europe's economic and financial system.

This is about remaining open for global cooperation, business and trade, while defending our interests, rights and values.

The Capital Markets Union and Banking Union are at the heart of this strategy.

Europe needs a strong, versatile and integrated financial sector.

We needed it before the pandemic struck. We need it even more now for the recovery - so that the private sector can access the funding needed to invest in the green and digital transitions as major sources for potential growth.

Deep, integrated and well-functioning capital markets will help us to build strong job-rich economies, fund technological innovation and keep EU companies globally competitive.

And of course, we need them to deepen and diversify sources of funding - for companies of all sizes.

Banks remain the main funding source for EU economies. They have to be able to provide credit anywhere in the EU to households and businesses, including SMEs.

An integrated and completed Banking Union would also increase the ability of the private sector to absorb shocks.

It would allow banks to diversify their exposures to different regions, sectors and sovereigns.

We should make more progress on both projects. This will allow us to create synergies between private and public investments.

Ladies and gentlemen: I will conclude here – and wish you a successful remainder of your conference. Thank you