Commissioner Paolo Gentiloni

EMU DEEPENING

27 May 2020, 15:00, Brussels

OMFIF High Level seminar on ‘The Future of the Euro area and response to Covid-19’

SPEAKING POINTS

- Thank you for giving me an opportunity to set out the Commission's priorities for Economic and Monetary Union. On this **day of big numbers**, having just a few hours ago adopted the EU's Recovery Plan, I'm pleased that we can find half an hour to discuss the **big perspective of Economic and Monetary Union**.
- **Europe is experiencing an economic shock of historic proportions and without precedent since the Great Depression.** The Spring 2020 Economic Forecast projects that the euro area economy will contract by a record 7¾% in 2020 and grow by 6¼% in 2021. Growth projections have been revised down by some nine percentage points compared to the Autumn Forecast. Moreover, the risks surrounding the forecast are exceptionally large and concentrated on the downside.
- **Both the depth of the recession and the strength of recovery will be uneven**. The initial conditions in our Member States were different, both in medical and economic terms. The intensity of the pandemic, the containment measures and the speed at which lockdowns can be lifted in each country differ, even if no country has been spared.
- **In economic terms, the structure of the economy, each country's financial resources and their resilience differ.** For example those with sizeable tourism sectors or mainly based on small and very small enterprises as in recreation services. Our estimates suggest that both the drop in output in 2020 and the strength of the rebound in 2021 are set to differ markedly. Some Member states, like Spain, Italy and the Netherlands, will see their

GDP at the end of 2021 still significantly below the level of end 2019.

- **The action a national level has been rapid and forceful.** Member States have adopted discretionary and liquidity support measures, such as introducing or extending short-term work schemes and liquidity/solvency support to companies, such as tax deferrals. These fiscal support measures amount to more than 3% of GDP and the liquidity measures to more than 22% of GDP. They play an important role in alleviating hardship, reducing company failures and safeguarding employment.
- At the same time, **Member States with less fiscal space cannot afford to provide generous and long-lasting support to businesses and households as those with more fiscal space**. The large share of total state aid given by one Member State with sizeable fiscal buffers is telling. Member States with weaker public finances on the contrary can support their companies less and have less scope to absorb the higher government deficits and debt, exactly at a time when the crisis shows the need to ensure quality healthcare and lasting social welfare provision.
- **Member States also face differences in their ability to finance investment** that will be necessary to rebuild their economies, and support the green and digital transitions. Overall, between the immediate impact of the crisis and the need to support the recovery, Member States will face very large financing needs in the coming years. Maintaining the stability of bond markets and access to borrowing is therefore essential. I would like to pay tribute to the decisive and unprecedented action by the ECB.

- There is a risk that the crisis could cause long-lasting damage to labour markets and leave permanent scars through bankruptcies, thereby **leading to an uneven playing field within the Single Market.** Already for too long, entrenched economic, financial and social divergences between euro area Member States have been a reality that comes with both economic and political costs, making it more difficult to sense and show how great an achievement EMU is. Today, the pandemic risks triggering further economic and social divergence. We need to be aware of the dangers, not least a **further political divide in the euro area and Member States drifting apart economically**, threatening the open and interconnected European economy that is to our common benefit and helps finance our welfare state.

- This is why the Commission has **today proposed a stronger EU budget to address the immediate economic and social damage brought by the coronavirus pandemic, to kickstart a sustainable recovery and to protect and create jobs**. Today's proposals are based on:
- A **Recovery Instrument** (Next Generation EU) to boost the financial firepower of the EU budget with new funds raised on the financial markets. The funds raised will be channelled through EU programmes to underpin the immediate and fast-acting measures needed to protect livelihoods and get the economy back on its feet.
- A **reinforced multiannual financial framework for 2021-2027** to channel investment quickly to where it is needed most, reinforce the single market, step up cooperation in areas such as health and crisis management, and equip the Union with a long-term budget to

drive the green and digital transitions and build a fairer and more resilient economy.

- **Today's proposal come on top of the strong steps already taken by the EU.** In March, we have activated the general escape clause in the Stability and Growth Pact, and adopted a temporary framework for state aid, allowing Member States a lot flexibility to support their citizens and businesses. In April, the Eurogroup's blueprint for three important safety nets for workers, businesses and sovereigns was endorsed by the European Council. These amount to a package worth 540 billion euros, which are now largely in place and will be completed in the coming days when the last elements of the EIB pandemic facility fall into place. and with the key parts agreed by the Eurogroup,.
- **Today's proposal will provide significant levels of targeted and front-loaded support to Europe's recovery.** This is a strong and timely common recovery strategy to counteract the divisive economic forces unleashed by the Covid crisis. Channelling additional resources at the European level will help the EU to finance crisis repair and recovery efforts. Given the interdependence of EU economies, the dynamics of the recovery in each Member State will also affect the strength of the recovery of other Member States.
- **The money raised at EU level will be used through EU-funded programmes** that will help tackle this crisis. The bulk of resources would go to support investment and reforms in Member States. We would also increase investment into our modern policies: the European Green Deal, digital transition and increased strategic

autonomy. In the implementation we will do all we can to front-loaded the measures – grants as well as loans - in the first years.

- This is today's focus and shows how much political energy Europe can gather when needed, but **we should not lose from sight the long-term priorities for the Economic and Monetary Union**.
- **Completing the Banking and Capital Market Unions remains as important as ever**. The crisis will inevitably lead to some bankruptcies and thus translate into lower quality of banking sector assets. Working on all open dimensions of the Banking Union is important. Agreeing on a European Deposit Insurance Scheme, the third leg of the Banking Union, would make the banking system more resilient. At the same time, other steps have to be continued, to enhance the resilience, increase the profitability and foster the consolidation of the banking sector.
- The **Capital Markets Union** is as timely as ever: thanks to a diversification of funding sources, savings of European households can be transformed into investment in companies, including into equity. This would enhance cross-border private risk-sharing.
- As part of the recent package of EUR 540bn, the SURE and the facilities of the EIB and the ESM mean that more pan-European bonds will be issued. Together with the funding by the EU for the Recovery Instrument, this is common funding and will translate into higher **issuance of European safe assets**. In the long tradition of the European Union, putting in motion concrete steps for the common good is the most promising way to progress with economic and political integration. This is what we are now witnessing, irrespective of the name that one wishes to give or not to give to these common bonds.

- The Recovery Instrument and SURE will play a useful **stabilising role in the current crisis**. However, they are only of temporary nature and we still miss a proper common stabilisation tool as a permanent feature in EMU. We must not let go of this vision, but should see how their most successful features could be preserved over time.
- Learning from the exceptional action deployed by the European Central Bank, we cannot underestimate the **importance of central institutions**. Lessons learnt during the previous and this crisis clearly show that we need strong institutions to provide timely and relevant response when needed. The institutional framework for the EMU needs to gradually develop. I have noted Chancellor Merkel's and Minister Scholz' recent statements about Treaty changes in the not-too-distant future and I applaud the vision that **the other side of common borrowing is a stronger ability to coordinate tax policies and raise common European revenues**. This is a view that is fully in sync with this Commission's agenda to fight aggressive tax planning, improve taxation in the single market and establish new own resources to finance the EU's policies.

Conclusion

- The steps taken in the past few months will help the EU to come out stronger from the crisis, and will underpin the euro as a strong and attractive common currency.
- The coronavirus pandemic represents a once-in-a-lifetime shock for the global and EU economies. We should not underestimate the size of the challenge and we would should be aware of the risks that are still out there.

- This is why we have to design and implement a common answer to the crisis, to ensure the integrity and the cohesion of the Single Market and its shared prosperity. The response that we give today is to repair the crisis damage and generate recovery, build resilience and guide our economies along the path of the green and the digital transitions.
- Completing Economic and Monetary Union remains at the centre of our political agenda. The way we combat this crisis has the potential to make EMU stronger and deeper. This would help also to progress on other priorities, including developing EU's economic diplomacy and increasing euro-denominated trade that can help promote the role of the euro in the energy sector. The ongoing crisis reminds us not only of the vast challenges that Europe faces, but also the huge role that the EU can play globally.
- Thank you for your attention.