Q&A

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Europe's sovereignty is a core objective for the French Presidency of the EU

What are the priorities of the French EU Presidency in the economic and financial area to support the economic recovery in Europe?

European sovereignty is at the core of the French EU Presidency.

First of all, we Europeans can be proud of the way we collectively faced the worst crisis, since the 1920s' Great Depression. Thanks to our decisions, to the well-thought coordination of our public policies, and to the instruments we implemented together, at the right time (state-guaranteed loans, short time work schemes, solidarity funds, common debt issuance), we managed to collectively face such a crisis, with success. Such a success is a European success.

We now must show the World that the European Union and its Member states are able to coordinate their economic policies, as efficiently and as ambitiously as they did during the crisis. This is why our Presidency will make sure that the European recovery plans continue to be fully and effectively implemented.

Now the question is, what kind of economic model do we want to build for Europe?

Firstly, a sustainable model. We are the first continent in the World, to draw precisely our path to reach net zero emissions by 2050. Within the Green Deal package, the Carbon Border Adjustment Mechanism (CBAM) aims at fighting carbon leakages outside of Europe, while abiding to WTO agreements. It would be foolish to make such massive investments in reducing our industries' emissions, while, at the same time, importing carbonized steel and aluminium from abroad. This would have deep negative consequences for our industries, for our citizens and for the World's climate.

Secondly, a model that paves the way for a fair and an inclusive growth. To this end, the French Presidency of the Council of the EU is committed to establish a fairer and a more efficient tax system. We are determined to succeed in implementing, at a European level, the agreement on international taxation that we signed at an OECD level, last year. Reaching such a crucial agreement was possible, thanks to the EU and to our countless efforts over the past 5 years.

Thirdly, a model that founds growth on innovation. On Hydrogen, Cloud, AI and Electronics, we need to build leading European competitors. This is why we have decided to develop European industrial alliances (IPCEIs). And this is not only an industrial issue; it is a cultural issue. We Europeans must be incentivised to take more risks, in order to stimulate innovation and to develop the technological solutions we need for the future.

Such an ambition will require massive funding. And such funding does not count in hundreds of millions, but in billions of euros, tens of billions of euros, and even more. Reaching those levels of funding will require both public money and private money. This is why we need a strong and a unified European financial system. This is also why we need to frame our public spending policies. Our discussions on the economic governance review are designed to define a right balance between rules, fiscal sustainability and our investment needs, in order to face the technological and climate transitions.

All these topics will be at the heart of our discussions at the Informal Ecofin and at the Leaders' Summit on investment and growth, on March 10th and 11th.

How can Europe correct overtime the growing heterogeneity of economic and fiscal performance between euro area countries? What should be the main elements of a reform of the Stability and Growth Pact? What measures would finally make it effective?

The economic governance framework should allow us to follow a double objective: building our economic model based on sustainable growth, while facing the ecological and digital transitions; and making sure that we have sound public finances. There is no trade-off between sustainability, growth and investment: each issue is similarly important.

To this end, there are several proposals on the table, including the possibility of differentiated fiscal policies between Member States, the necessity to better take our investment needs into account, and proposals in favour of a greater role for Member States in the way they can define their fiscal targets and reforms.

Whichever conclusions we draw, we will need time to examine each proposal and build a consensus on the chosen solutions. Discussions have already started, but it is too early to draw such conclusions.

Modernising our economic governance framework should not only focus on budgetary rules. It will also be essential to think through the way we can better coordinate our economic policies, in order to reduce external imbalances between Member States.

This should be part of the broader discussion on the long-term European economic model, at the informal ECOFIN and at the Leaders' Summit in March.

Does the EU's financial autonomy need to be reinforced and if so for which reasons? How can Europe's financial autonomy be strengthened? What are the prerequisites (e.g. economic convergence in all parts of the Union, positive real interest rates…), the enablers and the priority areas?

I believe we need to reinforce the EU's financial autonomy, in order to increase the resilience of European financial markets.

To reach this goal, firstly we have to build more integrated markets. This requires a Banking Union which fosters the completion of truly transnational banking markets. A genuine Capital Markets Union is also key. We will work during our presidency on developing vehicles that favour pan-European long-term investment, through the review of the ELTIF directive. The review of the Markets in Financial Instruments Regulation (MiFIR) must also contribute to improving the functioning of European capital markets, especially by setting up a European consolidated tape.

Secondly, we need a stronger funding capacity. This means defining the right balance between strengthened financial stability, resilience and the competitiveness of financial actors. We will have to find such a balance in the transposition of the Basel III international agreement into European law: a fair transposition should allow to increase our funding capacity. Similarly, we aim at adopting a Solvency II review which would promote the role of insurers as long-term investors, particularly in equity.

Finally, it is by being able to set its own standards that the European Union will preserve its financial autonomy. This is particularly true when it comes to the ecological transition. Europe has a pioneer role to play in this field. The finalisation of the negotiations on the directive on corporate sustainability reports (CSRD) and on the regulation creating European standards for green bonds (EUGBS) are telling examples.

What are the costs and risks of not addressing ring fencing practices and therefore not breaking the complete standstill where the "Banking Union" finds itself? How can we move forward?

We need the European banking sector to mobilize large and competitive funding services, in order to support households, firms and projects across the European continent.

To this end, the European financial sector must be less fragmented, so that it can grow, to benefit from scale and scope economies. This means building a Banking Union which paves the way for a truly integrated European banking sector.

Yet, so far, we have clearly failed on delivering on this objective. Before the Great financial crisis, we had more cross-border banking operations in Europe, although supervised by national authorities, than today. Since we started building the banking union, there have been paradoxically fewer cross-border operations and more purely national banks, although now supervised by European authorities. In parallel, the ring-fencing practices rules led European banks to freeze hundreds of billion-worth of excess liquidity at the level of their local subsidiaries.

This more fragmented banking market deeply harms our growth potential. This is why we have to fix this issue quickly if we want to preserve the European financial autonomy. But at the same time, we must continue to take into account the concerns on "host" jurisdictions.

A way to overcome the current situation is to develop appropriate safeguards, through a credible and an efficient European resolution regime and through European safety nets, such as the Single Resolution Fund and the project of EDIS.

From a supervisory point of view, such power transfers from home and host supervisors to a central authority will ensure a more neutral treatment. From a bank crisis management perspective, such a resolution framework would create a strong intragroup solidarity between home and host entities. Combined to the deployment of large amounts of mutualised safety nets, which are mostly funded by home sectors, this should ensure the right level of safeguard for host jurisdictions. France is supportive of the Eurogroup president's attempt to unlock such political discussions. We must take ambitious actions to complete a truly integrated European banking market, while ensuring that we design strong crisis management and depositor insurance frameworks.