Q&A

VALDIS DOMBROVSKIS

Executive Vice-President for an Economy that Works for People, with responsibility for Trade - European Commission

Investing in Europe's growth: from crisis reaction to building future prosperity

It is testament to the resilience of Europe's economy and society that both are holding up so strongly against shocks that nobody was expecting: first, the COVID-19 pandemic and now, Russia's relentless aggression against a sovereign neighbouring state, Ukraine.

This resilience has been built up by learning the lessons of previous crises: above all, the importance of providing a rapid, focused and coordinated EU response.

Economic output returned to pre-pandemic levels relatively quickly. We have now made a substantial shift away from Russia as an energy supplier, diversifying to gas and LNG providers in countries such as the United States, Norway, Israel and Egypt.

And take the SURE programme: this has been a real EU success story at a time of immense hardship. It provided essential support to workers and firms in the darkest months of the crisis, keeping many millions in a job to protect their incomes. It has also contributed to the unprecedentedly strong labour market that Europe is still experiencing today.

The many supply-side shocks, along with the shifting sands of geopolitics, have focused our minds towards devising innovative and flexible policies. They have worked well, and fit in with our longer-term policy ambitions too.

There are now more promising signs for Europe's economy. Energy prices have moved lower; inflation is starting to cool off after hitting record highs last autumn.

However, we are not out of the woods yet. There are also structural challenges we need to tackle: the EU's long-term energy dependence, the green and digital transitions and, more broadly, the need to strengthen our competitiveness.
All this in a context of high uncertainty as Russia continues its aggression against Ukraine.

Recent events have shown how excessive dependence – on Russian fossil fuels, for example - can be used against the EU's own interests. This is why we intend to strengthen the resilience of Member States and diversify supplies in strategically important areas.

This applies not only to reducing our energy dependence – we are already doing this via the REPowerEU inititiative - but also on inputs and advanced technologies that will be vital for advancing with the green and digital transitions.

It includes areas such as batteries, semiconductors, critical raw materials and hydrogen.

For the next few years, we have the NextGenerationEU programme to help Member States to become more sustainable, prepare them to face future challenges and tackle these challenges - thanks to the foresight in the design of its priorities.

Its flexible centrepiece instrument, the Recovery and Resilience Facility (RRF), is the vehicle for countries to carry out structural reforms and investments, to accelerate the green and digital transitions and to shore up the EU's ability to withstand future shocks. This should be done in close partnership with the private sector, including financial institutions.

For the medium term, the Commission estimates that the investments funded by NextGenerationEU could boost the EU's GDP by around 1.5% in 2024. Its reforms will have a long-lasting impact on our economies and societies even after the RRF ceases to exist.

Member States are firmly into the implementation phase of their investment and reform agendas as set out in each national Recovery and Resilience Plan. The money is flowing to Member States. The latest RRF payment to Spain brings total RRF disbursements to more than €150 billion.

This year will be critical, since we will be halfway through the RRF's lifetime. By the end of 2023, more than half of the milestones and targets will be due, so it will be essential for all Member States to get their reforms and investments into place as soon as possible.

At the same time, it is vital to maintain an anchor of macroeconomic and financial stability. This means ensuring sound public finances across all EU Member States.

The importance of investment for stimulating economic growth cannot be stressed enough. However, for Member States to invest, they require fiscal space - especially for the large investments needed for the green and digital transitions.

That said, we are now living in a high-debt environment. The unprecedented fiscal support provided during the pandemic has increased public debt and reduced the potential for fiscal manoeuvre.

Overall, debt and deficit levels are now significantly higher than a decade ago. Some countries have public debt ratios well above 100% of their GDP.

It is now time to start phasing out the support measures and improve their targeting, to avoid unfocused spending and adding to inflation.

Overall, fiscal policies need to become more prudent. They should prioritise rebuilding fiscal buffers and underpinning balanced growth. This will put us in a good position to tackle future challenges.

These are some of the priorities of the economic governance review: our blueprint for the EU's future fiscal rules. They should be credible, effective and enforceable, improving debt sustainability and boosting potential growth in a sustainable way.

It is how we can arrive at lower interest rates, create fiscal space for investment and allow countries to build buffers to cope with future economic shocks.

We are aiming for a simpler rules system, with greater country ownership and more latitude for debt reduction – but combined with stronger enforcement. Above all, we aim to ensure public debt sustainability. This will require fiscal adjustment as well as growth-enhancing reforms and investments.

Under the proposed new governance set-up, Member States will have the possibility to moderate their fiscal efforts in conjunction with carrying out reforms and investments in line with EU priorities that boost fiscal sustainability and potential growth.

This will help us to secure sustainable growth for the future. However, today's new geopolitical realities make it urgent to tackle long-standing challenges concerning our global competitiveness.

Here, the key element is the single market: our most valuable asset, now celebrating its 30-year anniversary. This must be preserved as a key source of productivity and innovation – with more reduction of barriers and more integration, especially for services.

In the last 30 years, for example, the level of integration for trade in both goods and services has doubled. But integration in services – which account for some 70% of the EU's GDP – is well below that for goods.

To maintain the EU's long-term competitiveness, the Commission has identified key areas to focus on: along with the single market, they include availability of private funding, public investments, energy, open trade, research and development, digitalisation, skills and circularity. These will come with key performance indicators that will help us to carry out annual monitoring.

We also need smooth access to private capital – and that means pushing ahead with the Capital Markets Union. Deepening and further integrating Europe's capital markets is the most cost-effective step that we can take to drive investment.

At such a challenging time for the bloc's economies, we need functioning capital markets more than ever to stimulate financing around Europe. More financing opportunities to help start-ups, to help larger companies to thrive, to create more opportunities for Europeans to invest safely.

Regulation must be simple, smart and targeted: for example, by looking at how we can reduce administrative burdens and reporting requirements.

In particular, there will be a new push for streamlining reporting requirements across the EU's green, digital and economic legislation, with first proposals by the autumn aiming for a 25% reduction in burden.

- **A globally attractive business environment, friendly to innovation.**
- **Targeted and productive investments based on sound public finances.**
- **Strong, resilient economic and financial architecture.**

These are the priorities and areas where we will focus to boost Europe's long-term growth.