European Commission - Speech
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Speech by Executive Vice-President Dombrovskis at the Eurofi high-level seminar

Stockholm, 27 April 2023

Ladies and gentlemen: it is a pleasure to be with you today in Stockholm. Thank you to Eurofi for inviting me again to speak.

Dealing with the events of the last few years has been an uphill struggle. First, the COVID-19 pandemic. Now, Russia's relentless and illegal aggression against Ukraine.

Throughout the many shocks and geopolitical shifts, Europe's economy has shown remarkable resilience and agility.

Co-ordination, solidarity, quick focused responses, have all helped a lot.

Our economic output returned to pre-pandemic levels fairly quickly. Inflation is cooling off after hitting record highs last autumn.

For the euro area, we expect annual inflation to fall to 6.9% in March, down from 8.5% in February.

We have also made a substantial shift away from Russia as an energy supplier, especially for gas.

However, while there are now more promising signs for our economy, there is no doubt that 2023 will continue to be a tough year.

And not only in Europe.

We are not out of the woods yet. As the IMF put it recently in its Global Financial Stability report, the world is looking at a 'rocky recovery'.

There are longer-term structural challenges to tackle too: our energy dependence, the green and digital transitions and, more broadly, the need to strengthen our competitiveness.

All this is taking place in a context of high uncertainty.

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.

It applies not only to reducing our energy dependence, which we are already doing with the REPowerEU initiative.

It also applies to the vital inputs and technologies that we need to advance with the green and digital transitions: batteries, semiconductors, critical raw materials, hydrogen.

For the next few years, we have the Recovery and Resilience Facility, to help Member States become more sustainable, prepare them for new challenges and shore up their ability to withstand future shocks.

This should be done in close partnership with the private sector, including financial institutions.

Member States are firmly into the implementation phase of their RRF investment and reform agendas.

We now see a steady flow of RRF funding, with total disbursements standing at more than €150 billion.

Since more than half of RRF milestones and targets will be due by the end of this year, all Member States should get their reforms and investments into place as soon as possible.

I cannot stress enough the importance of more investment for stimulating growth, also for keeping up with global competition.

Here, what matters is for Member States to prioritise their RRF projects so that they are focused and realistically achievable and mobilise further investments from the private sector.

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. We also need growth-enhancing reforms and investments.

The SGP paper co-authored by Jacques de Larosière and Didier Cahen also emphasises these two aspects: sound public finances and investment are essential for growing out of debt.

Each Member State should also have enough fiscal space to make the sizeable investments required for the green and digital transitions.

However, we are now living in a high-debt environment. Some EU countries have public debt ratios that are far above 100% of their GDP.

This is why we need reformed fiscal rules to effectively reduce debt as well as promote reforms and investments.

Our aim is to strengthen public debt sustainability via gradual, realistic fiscal consolidation – and to boost sustainable and inclusive growth through ambitious reforms and investments.

These are the main priorities of European Commission's proposal for revising the EU's system of economic governance, which we presented yesterday in Brussels.

They are designed around four key areas: simplicity, ownership, safeguards and enforcement.

To simplify the rules, fiscal policy coordination will be based on a single observable indicator: government net expenditure. Our proposals also promote greater national ownership by giving more leeway to take a country's specific situation into account.

Each Member State should commit to a medium-term fiscal structural plan. As a rule, it would apply for four years.

It should contain clear fiscal targets to achieve a gradual and sustained reduction in public debt ratios, or to maintain debt at prudent levels for low-debt countries.

If a country wants to extend this period, it must commit to structural reforms and investments that meet certain criteria: they must boost growth, improve fiscal sustainability and contribute to EU priorities. Each plan must be approved by both the European Commission and Council.

Greater national ownership should lead to greater compliance.

However, if that is not enough, we have provided for safeguards as well as stronger enforcement.

On safeguards: the added leeway for Member States is constrained by a set of common EU rules to ensure transparency and equal treatment.

The Treaty reference values remain in place: 3% of GDP for the public deficit and 60% of GDP for public debt.

For Member States that exceed either value, the Commission will issue technical trajectories to be used as the basis of each plan. The ratio of public debt to GDP must be lower at the end of the period covered by the plan than at its start.

If a country's public deficit remains above 3% of GDP, it will have to carry out a minimum fiscal adjustment of 0.5% of GDP per year, to apply as a common benchmark.

And no heel-dragging, no backloading: Member States will not be allowed to push back fiscal adjustments to a later date. This also applies to carrying out required reforms and investments.

Lastly, rules are only fully effective if they go with credible enforcement.

The excessive deficit procedure would be opened by default, if countries with substantial debt challenges do not comply with the rules. They would also face tighter fiscal requirements if they do not carry out the reforms and investments to which they have committed.

In addition, the Commission would be able to impose financial sanctions in the event of non-compliance. These would be made more effectively enforceable by applying lower amounts.

Now, it is essential to reach political agreement quickly on new fiscal rules so that we can get them in place as soon as possible.

This is to provide certainty to Member States on the way forward.

Ladies and gentlemen

Private and public investment are two sides of the same coin. We need both. On the public side, channelling funds into the economy will crowd in private investment at a time when it is most needed.

However, the public purse has its limits. It simply cannot pay for the vast amounts needed to meet urgent and demanding challenges such as the green and digital transitions.

We will clearly have to rely heavily on the private sector.

For this, rolling out the Capital Markets Union to drive forward investment is the most cost-effective step we can take.

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 save and invest safely.

With deeper and more integrated capital markets, we can provide more sources of finance for EU companies to grow and thrive – and stay in Europe.

This is why we need to press ahead with creating the Capital Markets Union. We have made a lot of progress with this project in recent years.

Now we need to use the time before the next European Parliament elections to get all Commission proposals adopted.

This also includes reforms to structural obstacles for the further integration of capital markets, such as corporate insolvency.

It would go a long way to unlocking the private investment that we need to generate growth.

To sum up, Europe is coping well with the many short-term challenges that we are facing. Despite the current high-risk environment, our economy is holding up well.

For the longer term, our focus must be to maintain and strengthen financial and economic resilience, as well as creating lasting and sustainable growth.

Our policies are designed to achieve this goal, with:

- a globally attractive business environment
- targeted and productive investments based on sound public finances
- strong, resilient economic and financial architecture.

Thank you, and I wish you a productive and successful seminar.

SPEECH/23/2493