Economic Policy Priorities for Europe: Looking Back, Looking Forward

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Columbia University, 15 October 2019
Outline

1. Legacy of the Juncker Commission
2. Current situation and open issues
3. Priorities of the von der Leyen Commission
4. Short-term policy mix
Promoting economic recovery

Growth has been around 2% in the EU and the euro area in recent years. All Member States recorded growth in 2018. The EU and euro area have now grown for 24 consecutive quarters. The investment ratio is approaching pre-crisis levels in the EU and euro area.

12.6 million jobs have been created in the EU since the start of the Juncker Commission.
Ending austerity and promoting a flexible approach to fiscal rules

Member State is currently in the Excessive Deficit Procedure under the Stability and Growth Pact, down from 24 in 2011.

The use of flexibility within the rules of the Stability and Growth Pact made it possible to strike the appropriate balance between pursuing sound fiscal policies and supporting growth, notably through reforms and investment.

Estimates suggest that the use of flexibility has boosted EU GDP by 0.8% over the last four years and resulted in around 1.5 million jobs.

Source: European Commission.
✔ Preserving the integrity of the euro

- All countries under assistance programme (Ireland, Portugal, Cyprus, Greece), successfully completed it and are back to growth
- “Grexit” was avoided in 2015
- Two countries joined the euro: Latvia (2014) and Lithuania (2015) and two more are in the process of joining (Croatia and Bulgaria)

3/4 EA citizens support the euro: highest level ever recorded
While we did a lot, not everything was achieved..

- **Growth has returned but it is neither sustainable, nor inclusive:** risk of the “1% economy”
- **Despite the end of austerity, public debt is still high and fiscal rules remain pro-cyclical**
- **The euro has survived but the architecture remains incomplete:**
  - Banking/capital markets union
  - Fiscal union
  - Focus on inter-governmentalism
2. Current situation and open issues

Negative legacy of the crisis years that still needs to be addressed

- Loss of trust between Member States (creditors vs debtors)
- Reliance on the *ultima ratio* approach
- Inward-looking Europe
3. Key priorities for the new Commission

Themes for action in the next 5 years

1. Inclusive and sustainable growth

2. Deepening EMU

3. A geopolitical Commission
Key actions for inclusive and sustainable growth

**European Green Deal**
- 3-pillar approach: fiscal, regulation, and investment/finance
- InvestEU

**Sustainable Development Goals**
- Refocus the European Semester to integrate the Sustainable Development Goals

**New industrial policy**
- Mission-driven
- Ensure economic sovereignty through key enabling technologies
Key actions for deepening EMU

- Economic surveillance
  - Review of economic and budgetary surveillance

- Market discipline and a safe asset
  - Overcome creditors/debtors divide
  - How to build consensus?

- Complete banking and capital markets union
  - European Deposit Insurance Scheme
  - Break the sovereign-bank loop

- A stabilisation tool for the euro area
  - EU unemployment (re-)insurance scheme
  - Budget Instrument for Competitiveness and Convergence
3. Key priorities for the new Commission

**Key actions on the global dimension**

- **Preserve global governance**
  - Avoid a G 1+1 world
  - We hear a demand for Europe

- **Stronger influence with partner countries**
  - Develop bilateral dialogues with key countries alongside rules-based multilateral approach

- **A geopolitical Commission**
  - More strategic external action
  - All Commissioners will evaluate the external consequences of their actions

- **International role of the euro**
  - Key for economic sovereignty
  - No short-cut: deeper EMU needed
A reassessment of the policy mix is needed

“...if fiscal policy had been in place, or would be put in place, the side effects of our monetary policy would be much less.”

Mario Draghi, 12 September 2019
Addressing both short-term and long-term challenges in the Fall

4. Short-term policy mix

Monetary policy:
- Patient
- Persistent
- Prudent

Fiscal policy:
- Timely
- Targeted
- Temporary?

Structural reforms:
- Feasible
- Forward-looking
- Fair

Questions:
- a) Can monetary policy achieve internal and external equilibrium alone?
- b) Time to shift from a neutral to expansionary fiscal stance?
- c) What positive incentives for structural reforms?
In sum

1. The Juncker Commission has shored up the euro, accompanied the recovery and favoured a more balanced policy mix
2. While the crisis is behind us, its legacy remains visible
3. The goals for the next 5 years are sustainable growth, deepening EMU, and global leadership
4. Rebuilding trust between countries will be a key condition for success
Background
1. Legacy of the Juncker Commission

✔ Fostering investment

By 2020, the Juncker Fund is set to generate:

- €500 billion in additional investment across Europe
- 1.3% increase in the EU’s GDP
- 1.4 million jobs

Investment has returned to pre-crisis levels and is steadily increasing.

% change in the level of investment compared to 2008

The Juncker Commission takes office

EU28

European Commission

Source: European Commission
Review of the fiscal rules

- Results are better than what is usually considered
- Complexity is a result of the lack of trust, not a cause
- Benefit of a centralised vs. decentralised approach
- Flexibility yes, but should not à-la-carte
The European Semester process

**February**
- Country Reports
- Results of In-depth Review (IDRs)

**April**
- Submission of Stability & Convergence Programmes
- Submission of National Reform Programmes

**May/June**
- Country Specific Recommendations (CSR)

**July**
- Council decides on CSRs, fiscal policies, structural reforms and investment priority

**October**
- Submission of draft budgetary plans

**November**
- Annual Growth Survey (AGS)
- Euro area recommendations
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