

Presidency issues Note for session n°1 of the informal ECOFIN

Exiting the crisis and preparing for 2030 Europe: what economic policies do we need to achieve strong and resilient growth?

Europe adequately responded to the Covid crisis

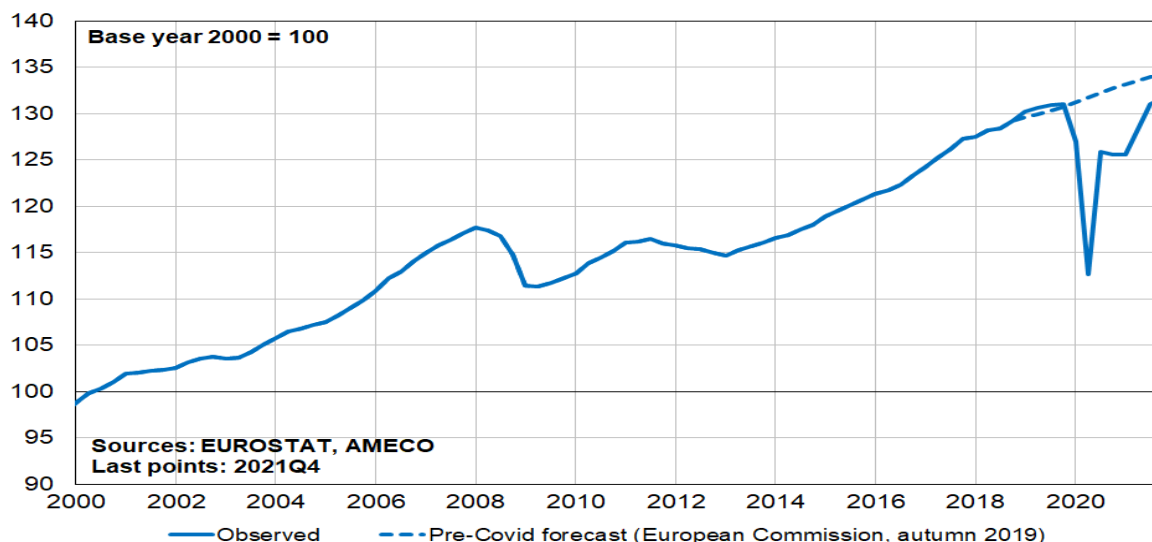
Faced with the most severe economic crisis since 1929, the European Union and its Member States responded swiftly, massively and in an effective and coordinated manner to the Covid crisis. Thanks to the policy actions of the Eurosystem, the activation of the General Escape Clause of the Stability and Growth Pact and the adoption of the State Aid temporary framework by the European Commission, EU Member States were able to enact emergency measures which were critical in protecting households and businesses (furlough schemes, business support funds and grants, state-guaranteed loans). The EU also stood out by putting in place ambitious instruments such as the SURE¹ instrument, the pan-European guarantee fund of the European Investment Bank (EIB) and the European recovery plan (Next Generation EU).

These national and European responses made it possible to preserve employment and investment levels in the EU, and to return to pre-crisis output levels – whereas it took almost 7 years to catch up after the 2008 financial crisis.

However, we cannot simply return to the 2019 level of GDP: we must return to our pre-crisis growth trend and even go beyond so as to raise our growth potential and build a greener, more competitive, more innovative, more resilient and fairer Europe.

¹ European instrument for temporary support to mitigate unemployment risks in an emergency

GDP in the EU27

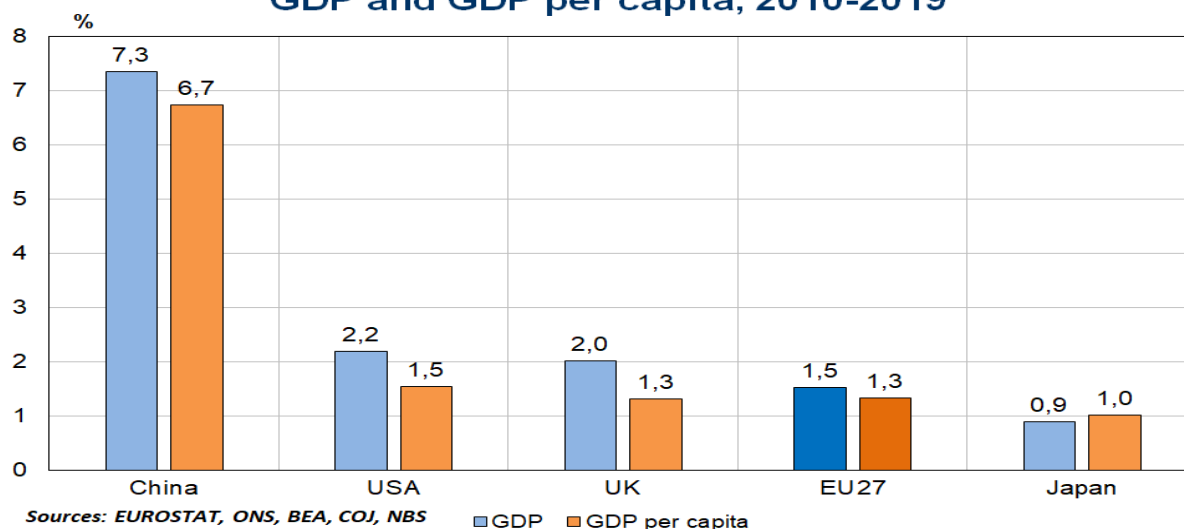


Going forward, we must find the right articulation between monetary, fiscal and structural policies as we exit the crisis, to be able to invest in the sectors of the future in order to prepare for 2030 Europe.

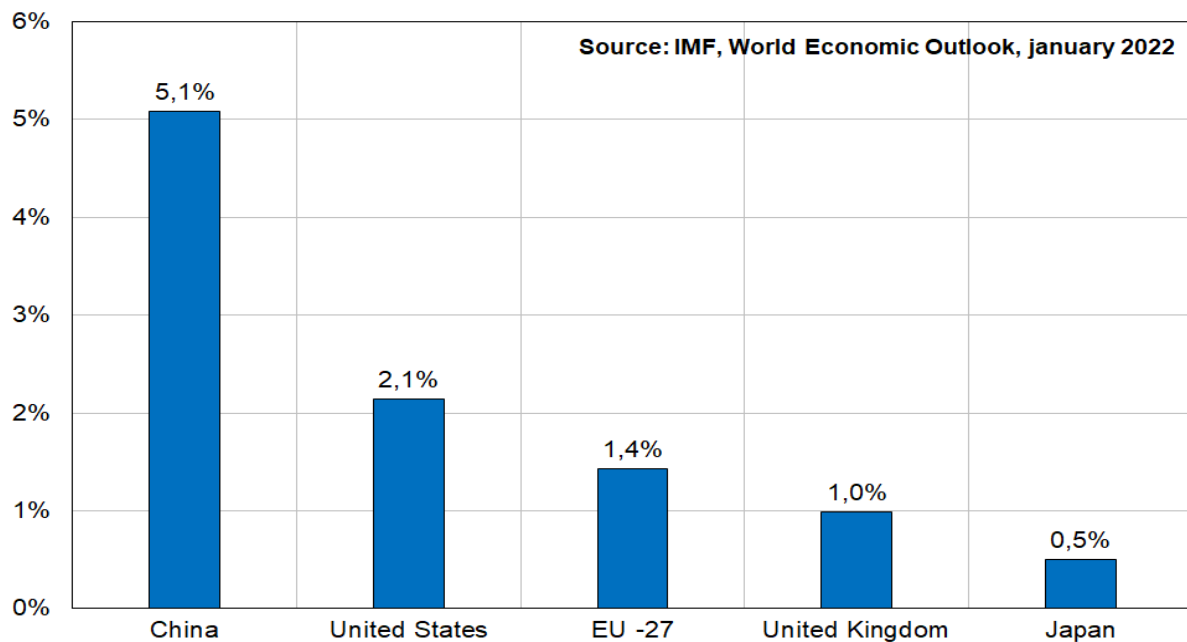
To achieve this, it is essential to ensure the effectiveness of economic policies, taking into account the need for coordination and spillover effects between Member States, as well as the mutual impact of fiscal and monetary policies: the appropriate policy-mix continues to be a topic of the utmost importance as the crisis recedes.

In the short run, the challenge is to refrain from undermining the nascent recovery, while bringing inflation back to its medium-term target, and to adjust support to the economy according to the shifts in the economic and sanitary situation. The challenge is also to find the right sequencing for the normalization of fiscal policies on the one hand and monetary policies on the other hand, in order to restore the necessary wiggle room for a sustainable recovery, while also paying attention to the heterogeneity of national situations.

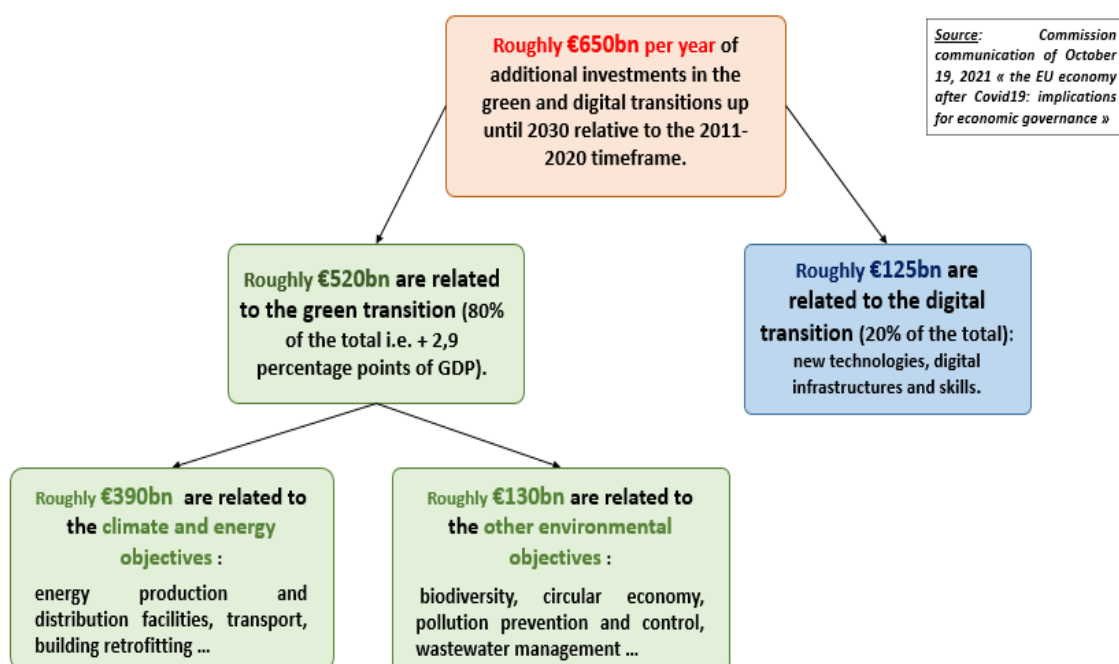
Average yearly growth rate of GDP and GDP per capita, 2010-2019



Average annual growth rate 2020-2023



At the same time, we must step up our efforts to meet the major challenges facing our economies, in particular low productivity growth and the need to accelerate the climate and digital transitions. In this respect, the investment needs will be massive and will require a large-scale mobilization of public and private financing, as well as a reorientation of public spending to gain in efficiency and thus free up room for maneuver. In addition to these investments, we must also take into account the cost of compensatory measures for households. We therefore need to start thinking about the levers, both at the national and European levels, which we can collectively mobilize to meet these challenges.



Estimated additional investment needs up until 2030 to meet the EU climate and technological objectives.

Questions for discussion:

- How can we continue to act, in a coordinated manner at 27, to pursue economic policies that are growth-enhancing?
- How can we reconcile fiscal sustainability with the necessary expenditures to prepare for our future, in particular in the twin transitions and in human capital, while we are moving towards a normalization of monetary policies in the EU?
- To what extent and under what conditions could some of the needs related to our common challenges be more effectively addressed at the EU level?