New modes of European macroeconomic governance - opening remarks by Pierre Gramegna

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Opening remarks to panel discussion "New modes of European macroeconomic governance"
European University Institute's State of the Union Conference
Fiesole, Italy, 24 May 2024

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Ladies and gentlemen, good morning.

I am delighted to address you today in the beautiful city of Fiesole, which was a chief member of the Etruscan confederacy.

Here, in Tuscany, the birthplace of the Renaissance, we are reminded how creativity can emerge from past traditions and glories. It is an ideal place for us to reflect on the urgent need for Europe to reignite this spirit of boldness and innovation.

Reflecting on the past 15 years, it is undeniable that both the euro area and the EU have made significant strides in bolstering their resilience. As Jean Monnet predicted, Europe has been forged in crisis and will be the sum of the solutions found.

The challenges posed by the great financial and the euro sovereign debt crisis laid bare substantial vulnerabilities in the European architecture. But these crises were not wasted, as Europe reinforced its institutional setup with the creation of the European Stability Mechanism, strengthened the Stability and Growth Pact, and decided to establish a banking union.

These considerable reforms helped preserve the integrity of the euro area. Today, our banks are more resilient than in the past, and this was last tested when there were financial turbulences in Switzerland and in the United States, which had very little spillover effects on the EU.

The pandemic, which caused both horrible human and economic havoc, was also met with remarkable European responses. The unexpected and external shock demonstrated the importance and effectiveness of rapid and well-coordinated European cooperation at both national and European levels. Most importantly, this pandemic showed that Europe is capable of unprecedented solidarity.

Next Generation EU best exemplifies that. It was created to support Europe's economic recovery from the pandemic and to help Member States finance the transition to greener and more digital economies. Besides, it is worthwhile underlining that a large part of the programme, nearly half of it, is in grants and the other half in loans. If I had been asked before the pandemic if Europe would be capable of such solidarity, I would have been sceptical, and this despite my deep-rooted optimism.

Supplementary measures were taken also in that context of the pandemic. The European Commission, the European Investment Bank, and the European Stability

Mechanism created instruments to support workers, businesses, and sovereigns, which were agreed during a very long night in the Eurogroup of 9 April 2020, which I attended.

Even as the pandemic was fading, Europe faced another shock. With Russia's aggressive war in Ukraine since February 2022, another human tragedy has been unfolding before our eyes. But in the face of adversity, Europe's response was again steadfast. More than €50 billion was mobilised within the existent EU budget to support Ukraine. Member States provided fiscal support to their citizens and enterprises to shield them from the higher energy prices.

The REPowerEU programme helped diversify energy supplies away from Russia's gas. Resolute monetary policy by the European Central Bank has been implemented to bring down excessive inflation, boosted because of disrupted supply chains and higher energy prices. Once more, Europe has proven more resilient than many expected.

Now, Europe is at a new crossroads.

It is confronted with major short and longer-term challenges. First and foremost, the war in Ukraine, defence and security issues, geo-economic fragmentation, climate change, and population ageing.

According to Mario Draghi, an additional €500 billion per year is necessary to close the investment gap. The key question that arises is, where will these financial resources come from? Especially as fiscal consolidation is warranted.

The new fiscal framework of the European Union will provide space for reforms and investment. It will be more growth friendly, which is positive, and a lesson learned from the previous pact. But fiscal consolidation will be necessary to ensure that public debt remains sustainable. Consolidating public finances is also necessary to create buffers in case of future crises. Against this backdrop, there have been lots of ideas launched for additional common financing at European level.

There have been several calls to issue European defence bonds. President Macron, in his latest Sorbonne speech, suggested the use of European stability mechanisms to finance investments. Enrico Letta, in his report, called “Much More Than a Market”, suggests that the European Stability Mechanism could establish a credit line to help its member countries finance their defence and security expenditures.

The same report also recommends marketing safe assets of EU institutions under the same name to create a common European safe asset. Other calls, finally, have been made to create a central fiscal capacity.

I think that focusing more on EU-level financing is now unavoidable.

Allow me to focus here on three main items, and that will be the conclusion of my speech.

First, on what has already been achieved.

Indeed, recent history has shown that funding through European institutions has yielded positive results. European safe assets constituted by the issuances of the European Commission, the European Investment Bank, and the European Stability Mechanism recently broke the €1 trillion mark. Before thinking about new forms of common financing, I believe we should keep in mind the existing lending capacity. There are still capacities left in the NGEU program, and the European Stability Mechanism has a current lending capacity of €422 billion. The ESM stands ready to support its Members within its mandate, and that mandate is to ensure financial stability.

Second, the importance of private investment.

Public support and public investment will not be sufficient to cope with all these challenges. We need to crowd in private investment. When Mario Draghi talks about €500 billion per year necessary for the coming challenges, he assumes that more than two-thirds of this must come from the private sector. And he's completely right, although the exact number is difficult to judge. Therefore, it is urgent to make progress on the capital markets union. The Eurogroup has recently agreed on the roadmap to achieve this in the aftermath of the European elections.

Third and last, there is another key variable which helps us solve the equation: economic growth.

Europe has had less growth than the United States for many years. As I speak, it is much less than half. So, besides structural reforms at the national level, we need to focus more on the European single market. Created more than 30 years ago, it is a success story. But it needs to be made more operational and to be modernised. We need a single market 2.0. Unlocking its full potential would foster economic growth and raise citizens' welfare over the long term, as Enrico Letta has highlighted in his excellent report.

Let me conclude with a quote by Leonardo Da Vinci, one of the past illustrious residents of Florence: “I have been impressed with the urgency of doing. Knowing is not enough. We must apply. Being willing is not enough. We must do.”

Thank you.

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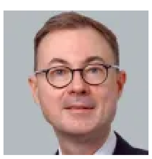

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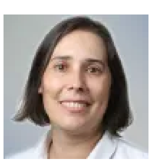

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