

Press release

The Bridge Forum Dialogue a.s.b.l. organised a video-conference on Tuesday 6 October 2020 from 15:00 to 16:30 titled “*The Economic and Monetary Union by stages.*” The conference marks the anniversaries of the Werner Report and the two Euro Rescue Funds.

Mr **Pierre Gramegna**, Minister of Finance of the Grand Duchy of Luxembourg, gave the introductory speech.

A panel discussion followed, under the chairmanship of **Mr Werner Hoyer**, President of the European Investment Bank, and with the participation of **Ms Christine Lagarde**, President of the European Central Bank, **Mr Valdis Dombrovskis**, Executive Vice-President of the European Commission, **Mr Paschal Donohoe**, President of the Eurogroup and Chairperson of the ESM Board of Governors and **Mr Klaus Regling**, Managing Director of the European Stability Mechanism. **Prof Dr Stéphane Pallage**, Rector of the University of Luxembourg, participated in view of the academic events held in Luxembourg at this time related to the Werner Report.

Mr Gramegna recalled that the Werner plan marked a change in perspective, whereby the economic and monetary union would act as an accelerator to boost the development of the political union. Since the Werner report Europe have come a long way and is much better equipped to face the challenges of the present times, including the current sanitary crisis. The direction for Europe has now been set out by the Green Deal and the Digital Single Market strategy. These need to be the new driving forces for future. Mr Gramegna concluded his intervention evoking a quote from Pierre Werner: “*In politics the worst is never certain*” and added “*there is always hope if we persevere*”.

Mr Hoyer underlined that, according to the Werner report, in order for the monetary union to be successful, there was the need for deeper political as well as economic integration, including harmonisation of tax policies and, crucially, some central oversight of national budgets under the scrutiny of the European Parliament. The Maastricht Treaty did not follow this blueprint creating the euro within a loose framework of economic cooperation and its chapter on EMU was left unchanged by the subsequent Amsterdam and Lisbon Treaties. Now this framework is being tested again by the economic effects of the Covid-19 pandemic. In this regard, Mr Hoyer stressed the primary importance of a large, fast and flexible European response. He presented some of the challenges and opportunities that lie ahead for Europe such as climate change and digitalisation. Climate change transformed the EIB radically, in order to refocus and become the European climate bank. Finally, in his capacity as moderator, Mr Hoyer turned to the speakers asking to express their views on a number of issues that Europe is currently facing as it move forward in its construction.

Ms Lagarde took the floor and explained that indeed Pierre Werner was a visionary who in many ways laid out some of the foundations of the economic and monetary union used until today. A political union was his ultimate objective. There are four areas where the Werner report anticipated objectives towards which Europe still needs to make progress: firstly full market integration; secondly the creation of a centre of decision for economic policies; thirdly a transition to a political union with common institutions; fourthly the protection of the environment.

We are living in challenging times, Ms Lagarde pointed out, Europe has gone through an unprecedented crisis during the first two quarters of 2020 due to the Covid-19 and, based on the research carried out by the ECB, there will be no full recovery before late 2022. The recovery today is still uneven, incomplete and uncertain. In order to support recovery, policy efforts should be directed to three main areas: firstly a premature fiscal tightening should be avoided; secondly, the liquidity situation of banks and firms should be supported so that firms can continue investing, thirdly, human capital should be further developed for the work force affected or threatened by unemployment in order to tackle inequalities in the recovery process.

Looking at the present but also at the future, Ms Lagarde described how the ECB incorporates climate change in its activities, including in areas as stress testing for banks and own investments. The ECB decided for the first time to accept sustainability-linked bonds as collateral, as from 1 January 2021, this is a novelty that is directly related to climate change and sustainable performance criteria. More changes will come in the context of the strategy review that the ECB is conducting. Digitalisation is another important area, Ms Lagarde emphasized, as it has an impact on the monetary policy and payment systems. The preference that EU citizens have manifested during the past months for intangible means of payments is driving the ECB to explore the feasibility and desirability of a digital euro, which needs to be associated to safety, proper transmission of monetary policy and the appropriate autonomy of the European economy.

Mr Donohoe commented that the European project is by its very essence always ongoing and changing. The political wonder at the heart of European integration is that it means a commitment to stability and, at the same time, a commitment to change. These dynamics coexist and drive integration towards an ever closer Union, including in the field of the monetary union. Even in the last few months the European project has achieved things that were not thought possible, which reminds us that agreement and progress is always possible. The coordination of economic policies and a level playing field are also particularly important to minimise risks that can be multiplied in a currency union and, by successfully coordinating Member States efforts, Europe will be able to achieve more collectively. The inherently political foundations of the European project has produced an inter-dependence that can sometime presents challenges but is also a source of great strength.

This was shown clearly in the context of the present Covid-19 pandemic, where European authorities have acted in a fast and decisive manner to face the current challenges. Member States are working together to ensure a more inclusive and resilient recovery that benefits all European citizens and this has shaped the recently agreed Eurogroup work programme.

Mr Dombrovskis paid tribute to the impressive European response to the Covid-19 crisis, deployed in a united and coordinated manner. The European Union put forward a number of proposals that are unprecedented. He distinguished between immediate crisis response instruments and the NextGenerationEU that is Europe's economic recovery plan, which is estimated to raise GDP levels by around 2% by 2024 and help creating 2 million jobs. He further referred to the actions of the EIB Group in providing financing to the companies, the ESM whose Pandemic Crisis Support programme is helping reassuring markets and the ECB actions, including the Pandemic Emergency Purchase Programme to cushion the the impact of the crisis. Europe will therefore be able to emerge from the crisis stronger and with forward looking policies supporting the digital and green transformation of European economy. Mr Dombrovskis indicated the need for EU own resources, mentioning some proposals for more direct fiscal revenues replacing the national contributions.

Mr Regling expressed the view that a crisis is also an opportunity to act, as the creation of the EFSF and then the ESM 10 years ago demonstrate. Different crises necessarily require different policy responses. He explained that the ESM Pandemic Crisis Support helps euro area countries to finance their direct and indirect costs healthcare, cure and prevention related costs due to the COVID-19 crisis. Countries can apply until the end of 2022 and they can receive up to 2% of their GDP. The only condition to access the credit line will be that euro area Member States requesting support would commit to use it to support domestic financing of healthcare related costs due to COVID-19. So far, there has been no formal request from Member States but the impact on the markets has been positive. The lesson learnt during the past decade, Mr Regling stated, is that when there is a crisis, it is important to provide financial support in the right way depending on the nature of the problem that needs to be fixed. Conditionality in the context of the current situation would be wrong, as there is no need to correct past policy mistakes but to respond to a common external shock for which governments are not responsible.

Invited to comment on the current fiscal rules, Mr Regling indicated that the Stability and Growth Pact worked reasonably well but needs to be reformed to be more credible, to be simpler and to better guide policymaking and market views. In the next few years, there are three difficult questions that would need a response: for how long should the general escape close be suspended? What is the appropriate fiscal path for every member country of the euro area during the next few years? How could a revised, simpler and credible fiscal surveillance look like? What is clear, according to Mr Regling, is that fiscal policy must be coordinated in a monetary union and, once Europe is out of the crisis, deficits need to go down again in order to avoid debt sustainability problems.



Finally, Mr Regling explained that in order to make the monetary union more resilient in the future, the Banking Union and the Capital Markets Union have to be completed. There is a need of fiscal capacity for macroeconomic stabilisation in the euro area as well as the need to make the euro stronger in the international monetary system, which requires larger volumes of safe euro assets. The ESM is prepared to provide a backstop to the Single Resolution Fund, following a change of the ESM Treaty, thereby helping to complete Banking Union. Finally, regarding safe assets, such as bonds issued by the European Commission, the EIB and the ESM, great progress is being made. The volume of safe assets can increase from around 20% of euro area GDP in the past to 40% in next two or three years, as a result, of the European measures to fight COVID-19. However, this figure, still lags behind the USA, where Treasury bonds and bills account for around 90% of US GDP.

Mr Pallage thanked the speakers and the audience on behalf of Gaston Reinesch, President of the Bridge Forum Dialogue a.s.b.l. He emphasized the significance of historical research on the origins of Economic and Monetary Union and Pierre Werner's thought carried out by the Center for Contemporary and Digital History at the University of Luxembourg, as well as the prospective studies on EMU in uncertain times. He highlighted the importance in Europe not only of stabilisation but also of growth.

Mr Hoyer concluded the conference and suggested to have a new event next year on this topic.

Analyses and historical documents related to the Werner Report and to the series of events organized to mark its 50th anniversary are available on a dedicated website: <https://wernerreport50.uni.lu/>

More information will be made available on the website of the Bridge Forum Dialogue:

www.forum-dialogue.lu .



Photo: from left to right:

Mr Werner Hoyer, President of the European Investment Bank

Pr Stéphane Pallage, Rector of the University of Luxembourg

Mr Klaus Regling, Managing Director of the European Stability Mechanism



Photo: from left to right:

Mr Pierre Gramegna, Minister of Finance of the Grand Duchy of Luxembourg

Mr Paschal Donohoe, President of the Eurogroup and Chairperson of the ESM Board of Governors

Ms Christine Lagarde, President of the European Central Bank

Mr Valdis Dombrovskis, Executive Vice-President of the European Commission