

Philip R. Lane: Welcome address



Welcome remarks by Philip R. Lane, Member of the Executive Board of the ECB, at the ECB conference on “Challenges in the digital age”, Frankfurt, 4 July 2019

It is a pleasure to welcome all of you to the ECB for this conference.^[1] As a central bank, understanding the myriad implications of digitalisation for the economy is a high priority: the presentations at this conference will provide us with the latest thinking and new insights, helping us in our economic assessments. Of course, digitalisation is also reshaping financial systems and payment systems, while at the same time stimulating intense interest in concepts such as crypto-assets and central bank digital currencies. However, the focus of this event is on the real economy, so I will not dwell on these other topics today.

Let me mention just a few economic implications of digitalisation that require careful assessment by central banks. First, substantial investment is required to reap the benefits of digitalisation. A distinctive feature of digital technologies is their reliance on intangible capital. For instance, according to national accounts data, the share of investment devoted to intellectual property has almost doubled over the past two decades. This measure, however, is bound to underestimate the actual importance of intangible capital, since many of its components are not included in the national accounts.^[2] There is some evidence that the weakness of physical capital investment over the past few years, if not longer, can to a large extent be explained by intangibles.^[3] At the same time, the difficulty of measuring investment in intangibles points to a more general challenge in quantifying digitalisation and its implications. Furthermore, the global

mobility of intangible assets means that it is also difficult to attribute the production and use of such assets to particular jurisdictions.^[4]

The balance of evidence suggests that Europe is somewhat lagging behind its counterparts in the development of the digital sector. For example, according to OECD estimates, the share of the information and communications technology (ICT) sector in value added is less than 5% for most euro area countries, which compares with around 7% for the United States and 8% for Japan.^[5] Similarly, when it comes to research and development (R&D) spending, the EU is now trailing both China and the United States, especially in the business sector.

Financing is one factor that may hold back R&D in the European digital sector. For instance, intangible investment is difficult to collateralise and therefore harder to finance in a conventional bank-centred financial system like the one prevailing in continental Europe. A deeper venture capital market (together with progress in developing a single pan-European market for digital products) could support the development of the tech ecosystem in the euro area, underlining the importance of capital markets union and the Single Market for goods and services.

In relation to labour market dynamics, the structural changes associated with digitalisation imply the contraction, or elimination, of some occupations but also the emergence of new types of jobs. Since the first industrial revolution, technology has always created more jobs than it has destroyed. Similarly, most advanced economies are currently enjoying the highest employment rates of the past three decades.^[6] In addition, digital automation can spur productivity, as I will discuss shortly, and itself tends to create new employment opportunities.

Furthermore, digitalisation offers the possibility of reducing search costs in the labour market and making the search and matching process more efficient. Indeed, in tracking labour market conditions, central banks can also benefit from the high-frequency data generated by online job searches^[7].

Above all, the ongoing digital transformation holds the promise of large productivity gains. For instance, a recent ECB survey of large euro area companies highlighted that firms see the potential for digital technologies to increase productivity growth, in particular by promoting knowledge sharing and enabling more efficient production processes.^[8]

Productivity growth plays an important role in the conduct of monetary policy. In principle, higher productivity growth spurs investment, and expectations of higher future income encourage consumers to spend more today. Moreover, higher productivity growth increases the equilibrium real rate of interest, which is a central factor in calibrating monetary policy.

In practice, however, despite the promise of increased efficiencies thanks to digital technologies, the productivity growth that we have seen in Europe, and indeed most advanced economies, has been lacklustre for more than two decades. This weakness of productivity growth despite the substantial digital innovations remains a puzzle. How this puzzle will be resolved remains to be

seen. What appears fairly clear, however, is that in the light of the overall disappointing productivity growth we have seen in recent years, the contribution that digitalisation is making to productivity appears, for the time being, relatively limited.

There may also be interactions between technology and trade. Digital technologies, together with trade liberalisation, have facilitated the growth of global value chains. This has been associated with both an increased synchronicity of global inflation^[9] and a dampening effect on domestic inflation. That said, results for the euro area are less conclusive.^[10]

In addition, digitalisation may affect price-setting behaviour through a variety of mechanisms. Digital pricing algorithms may also alter the nature of price-setting, at least in some sectors of the economy. For instance, by taking into account shifts in demand and supply more readily, such algorithms may accelerate the responsiveness of prices to shocks.^[11]

The expansion in online sales also facilitates price comparisons and alters market structures. Of course, the impact is much broader than just actual online sales, since online prices also affect brick-and-mortar prices.^[12] At the same, digitalisation may foster the rise of “superstar” firms that acquire a dominant market position on the back of the constellation of high fixed costs and low variable costs associated with many digital ventures. The market power of such firms may have long-term implications for price dynamics.

Current estimates point, however, to the rise of e-commerce having relatively modest effects on inflation. A recent ECB study found that e-commerce has reduced non-energy industrial goods inflation by 0.1 percentage points annually since 2003. Studies by other central banks have found similarly small effects.^[13] This does not preclude the possibility that we will see larger effects in the future, as online commerce grows further in size and scope.

I am sure that these topics will feature in your discussions over the next two days: I look forward to learning from your contributions.

[Eurojust helps Italy and Slovenia unravel massive VAT fraud](#)

□The Hague, 24 June 2019

✖With the assistance of Eurojust, the Italian authorities seized almost EUR 84 million after unravelling a VAT fraud scheme involving the marketing of technological and computer products in the region of Campania. A total of 49 suspects are under investigation for tax crimes committed through so-called

'carousel fraud' by collecting the VAT for themselves rather than remitting it to the Italian tax authorities. A joint investigation team, supported by Eurojust, coordinated the investigation by working together with the Public Prosecutor's Office of Naples North and the Specialized State Prosecution Office of the Republic of Slovenia. Two coordination meetings were held at Eurojust.

Searches were carried out in six companies in Italy. As part of these actions, two European Investigation Orders (EIOs) issued by the Slovenian Judicial Authority were executed to allow the transnational collection of evidence.

According to the prosecution's reconstruction of the offences, also confirmed by the preliminary investigation judge, the fraud consisted of the fabrication of a large number of invoices for non-existent transactions, amounting to almost EUR 500 million. For these activities, bogus companies were created, administered by figureheads.

Further investigations, using EIOs and telephone intercepts, were carried out in Slovenia and Estonia, two of the countries in which the bogus companies were located.

The investigation was initially conducted by the Lucca Public Prosecutor's Office and later transferred by territorial jurisdiction to the Public Prosecutor's Office of the Republic of Naples North. The Guardia di Finanza of Naples and Lucca actively supported the investigation.

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Grand Départ of the Tour de France – EESC discusses clean mobility and welcomes journalist Alberto Toscano: we can all contribute to a fairer society



Cycling and human values were honoured at the debate on clean mobility organised by the European Economic and Social Committee (EESC) and its TEN section on 3 July 2019. On the eve of the "Grand Départ" from Brussels of the 2019 Tour de France, the house of Europe's civil society welcomed Alberto Toscano, author of the book on the incredible story of Italian cycling champion Gino Bartali during the fascist regime.

A bike for a fairer society

"The good is done, but it is not said. And certain medals hang on the soul, not on the jacket," used to say **Gino Bartali**, the Italian cycling champion whose incredible story was told in the book "A bike against Nazi barbarism, the incredible destiny of the champion Gino Bartali" by journalist **Alberto Toscano**. Gino Bartali always opposed the Mussolini regime and, by hiding confidential documents in his bike, saved the lives of hundreds of Jews in Italy during the Holocaust. He was a discreet hero. Even once the Second World War was over, he never talked about this story.

"This book shows a person's commitment to the Jews people – hence to tolerance and an open society, which are foundations of peace. Peace should never be taken for granted," pointed out the EESC President, **Luca Jahier**. "Antisemitism is right now on the rise and this is unacceptable. This book helps us not to forget our history as a basis for moving towards a more just and open society, and shows the contribution everyone can make," he added.

On the same page was **Mr Toscano**, who warned: "Those who are attacking Europe today should think of the lessons drawn from the war that are, or were, part of their own family's memories. This is certainly not a good reason to accept everything that Europe does, but it is a great reason to avoid destroying everything."

Cycling, an example of sustainable mobility

Cycling is a sport that is often associated with fundamental human values, but is, first and foremost, a clean mode of transport. "Cycling – and green mobility – are in line with the focus on sustainable development of my presidency," indicated **Mr Jahier**.

The Committee has always been very active in this field, promoting environmentally friendly policies and the use of public transport, but also focusing on cycling and walking for the individual wellbeing. "We were at the forefront of raising awareness of the need to do more on urban mobility and we highlighted the potential of cycling, which has now become one of our priorities," declared **Pierre Jean Coulon**, President of the Section for Transport, Energy, Infrastructure and the Information Society (TEN).

Clean mobility for a sustainable future

"Accessible, clean and available energy and transport are necessary for the life of Europeans," highlighted **Mr Coulon**, who made it clear that the challenge was twofold. On one hand, it is extremely important for people to change their habits. We have to shift from an individual to a collective mindset and tap into the potential of public transport and new forms of mobility, such as carpooling and electric vehicles. On the other hand, the political authorities have to facilitate this shift, for example by making it less bureaucratic and more affordable. "Clean energy and mobility are the future of Europe," he maintained.

These topics were discussed during the debate on clean mobility, which also included, among the speakers, **Philippe Close**, mayor of the city of Brussels and **Christophe Najdovski**, deputy mayor of Paris. The focus was on action taken at local level, as regions and local communities often play a key role in promoting sustainable policies and in innovation.

Clean mobility for a healthier planet and healthier people. “We need to strengthen the voice of “normal” people, as the President of the Italian Republic Sergio Mattarella said, those who work on a daily basis for the good of others, of our society,” concluded **Mr Jahier**. “These are the people we should be talking about. *Forza buoni!*”

Background

For further information on the work carried out by the EESC’s TEN section, please consult our [website](#).

Commissioner Pierre Moscovici: remarks on the Spring 2019 round of fiscal surveillance for Italy following the College meeting

Bonjour. Un mois est passé depuis que la Commission a adopté son rapport 126(3) indiquant qu’une procédure de déficit excessive basée sur la dette était justifiée pour l’Italie. Ce même jour, je vous avais dit dans toutes les langues que ma porte restait ouverte au dialogue avec les autorités italiennes et que la Commission serait prête à examiner des éventuelles nouvelles informations avant de proposer une recommandation formelle au Conseil. Cette approche d’écoute a été validée par les Etats-membres lors de l’Eurogroupe du 14 juin qui avait d’un côté considéré que notre analyse était fondée et qu’à un certain stade une procédure était justifiée, et qui de l’autre côté, avait demandé à la Commission de poursuivre un dialogue avec les autorités italiennes.

C’est dans ce cadre que nous avons poursuivi des discussions franches et constructives avec les autorités italiennes ces dernières semaines, c’est-à-dire en réalité, fermes, précises, et avec la volonté d’aboutir.

Nous avons posé trois conditions très claires:

- o Compenser le plus possible l’écart budgétaire sur 2018 constaté par Eurostat en avril dernier qui était de 0.4pp. 2018 est une année passée et exécutée, néanmoins ce résultat devait être compensé ultérieurement autant

que faire se peut ;

- o Corriger l'écart de 0.3% pour 2019 que nous observons dans nos prévisions économiques de mai dernier, par rapport à un engagement qui était extrêmement limité déjà en termes de déficit structurel ;

- o Enfin, il fallait obtenir des assurances sur le projet de budget 2020 pour lequel la Commission, et je le rappelle, c'est toujours sur la base de nos propres prévisions que nous nous fondons, prévoyait un déficit de 3.5% du PIB et une dette en hausse à 135% du PIB, ce qui était à la fois inacceptable au vue de nos règles et très préjudiciable pour l'économie italienne et la zone euro dans son ensemble.

Suite à ces discussions, y compris le week-end dernier à Osaka, il se passe beaucoup de choses à Osaka, entre Giovanni Tria et moi-même, le gouvernement italien a adopté lundi un paquet de mesures qui formalise les réponses à nos trois conditions. Ce paquet est détaillé dans une communication au Conseil bientôt disponible sur notre site. Je ne vais donc pas le détailler autant que cela.

Ce paquet comprend notamment un budget de mi-année prévoyant une correction budgétaire totale de 7,6 milliards d'euros ou 0,42% du PIB, chiffre très substantiel. Cette correction est basée principalement sur des revenus additionnels pour un montant de 6,2 milliards d'euros (dont 2,9 milliards d'euros de revenus fiscaux et 600 millions de contributions sociales plus élevés, ainsi que 2,7 milliards principalement de dividendes plus élevés, qui seront payés à l'Etat par la Banque d'Italie et la Caisse des Dépôts et Prêts).

De plus, le gouvernement a également adopté un décret-loi qui gèle 1,5 milliards d'euros dans le budget 2019, qui s'ajoute aux 2 milliards déjà gelés en décembre dernier qui eux sont définitivement congelés. Ce décret devra être voté par le parlement dans les soixante jours et activé pour le 15 septembre.

Grâce à l'ensemble de ces mesures, qui sont très substantielles, l'Italie respecterait globalement les règles du Pacte en 2019 s'agissant de l'effort structurel, se mettant ainsi en conformité, ce qui n'était pas le cas tout à fait en décembre 2018 Elle ferait en fait un ajustement plus important que prévu (+.03pp) et compenserait en outre une grande partie de la déviation constatée en 2018.

S'agissant du déficit nominal, l'Italie respecterait également l'engagement de décembre dernier en ramenant son déficit à 2,04% du PIB en 2019. Je précise que cette évaluation est faite selon nos chiffres, les chiffres de la Commission parce que c'est toujours sur nos chiffres que nous nous basons. C'était un point important pour nous pour maintenir la crédibilité de cet accord.

L'Italie réalise le même effort que celui prévu en décembre, mais sans croissance, alors que nos prévisions étaient à 1% de croissance à l'époque. Nous pensons qu'il serait contreproductif du point de vue économique – et

pour la dette publique car on ne réduit pas sa dette publique si on a pas de revenus— de demander au pays de faire plus que cela cette année dans les circonstances que nous connaissons. Donc nous ne demandons pas d'aller en-deçà de 2.04 %.

Comment évaluer tout cela ? Les deux premières conditions, à savoir l'ajustement budgétaire sur 2018 et 2019, tout en respectant un objectif nominal de 2.04% pour 2019, sont donc respectées.

Concernant 2020, vous savez que nos prévisions de printemps indiquent que le déficit nominal atteindrait 3,5% du PIB et que le solde structurel se détériorait de 1,2% du PIB. Ce sont deux chiffres vraiment très considérables et qui ne peuvent pas être la réalité l'an prochain. Nous avons donc insisté auprès de nos interlocuteurs italiens sur la nécessité de respecter les règles de Pacte en continuant en 2020 de fournir un effort structurel significatif, assurant la conformité qui permet d'avoir l'Italie dans une catégorie qu'on appelle « broadly compliant » au regard du Pacte de Stabilité et de Croissance. Cela doit passer par le remplacement de l'augmentation de la TVA, que le gouvernement ne veut pas mettre en œuvre, par des mesures alternatives qui assureraient le respect global du Pacte. Cela nécessitera également un agenda de réformes structurelles qui permettent enfin à l'économie italienne de générer une croissance suffisante et ainsi faire baisser le déficit et la dette. Je ne voudrais pas qu'on répète sans arrêt que l'Italie c'est l'Europe avec 1% de croissance en moins. Ce n'est pas bon, ni pour la zone euro ni pour l'Italie. Je note avec satisfaction l'engagement des autorités italiennes, et je dis au passage, de tout le gouvernement, à s'inscrire dans le cadre du Semestre européen pour cet agenda.

Le gouvernement a bien pris cet engagement lundi soir, dans une lettre co-signée par Giuseppe Conte, le Président du Conseil, et Giovanni Tria, même si les détails viendront en octobre avec le projet de budget 2020. Il est tout à fait normal de respecter le rythme d'élaboration des budgets.

Une des dernières tâches de ce Collège sera de faire une première évaluation de ce projet de budget car nous recevrons les « DBPs », les avant-projets de budget, le 15 octobre, de l'Italie comme d'autres. Après, le bâton de ce dossier passera à nos successeurs.

On the basis of these commitments, the Commission has concluded that a debt-based Excessive Deficit Procedure for Italy is no longer warranted at this stage. I will explain this conclusion in detail, because I understand ministers need details, to the Eurogroup next week and I am very confident that ministers will concur with it.

Is this the end of the road? Clearly it's not the case.

We will need to continue to monitor Italy's budgetary execution very closely in the second half of this year.

We will also need to assess very carefully Italy's draft budgetary plan for 2020, which must reach us by 15 October. A first assessment of this draft budgetary plan will be one of the last tasks of this Commission, and a

particularly important one and maybe delicate one. I welcome Prime Minister Conte's willingness to pursue a constructive dialogue with us with a view to ensuring that the draft budgetary plan will be compliant with the preventive arm of the Pact. He may rest assured, *la mia porta rimane aperta*. Ça va devenir pour moi un mantra, et ça a d'ailleurs été un mantra tout au long de ce mandat.

Let me conclude. I have read so many times these past weeks that the Commission was preparing a disciplinary procedure against Italy. It was our duty to move on with the procedures which are under our responsibility. But it was never the spirit of this Commission, the Juncker Commission, it was never my spirit. The aim of the Stability and Growth Pact is not to punish or discipline anyone. It is to ensure that governments pursue sound public finances and correct problems swiftly when they occur. And that has the outcome of the latest stage of this process. I am satisfied that we finally could through dialogue reach a sufficient level of correction and thus be capable of saying that the EDP is no longer warranted at this stage. This is good news for Italy, for the euro area and for the credibility of the common rules that underpin it. It would have been bad news to be obliged, forced, to have an EDP. We could avoid it but it was due to the fact that dialogue led to a very very significant effort.

Thank you.

[EU Trust Fund for Africa: new migration-related actions to protect vulnerable people and foster resilience of host communities in North of Africa](#)

The European Commission has approved five new migration-related programmes in North of Africa totalling €61.5 million. These new programmes adopted under the [EU Emergency Trust Fund for Africa](#) will reinforce ongoing actions to protect and assist refugees and vulnerable migrants in North of Africa especially in Libya, improve the living conditions and resilience of Libyans as well as foster economic opportunities, labour migration and mobility in the North of Africa countries.

Commissioner for Neighbourhood and Enlargement Negotiations, Johannes **Hahn**, underlined: *"The events of last night killing migrants are a strong reminder of the need to pursue EU's efforts to protect them and to put an end once and for all to the Libyan detention system. The EU continues to push for the*

ultimate closure of detention centres and is working to provide assistance and protection to people in need. In the framework of the African Union-European Union-United Nations Task Force, we support vulnerable migrants to voluntarily return and reintegrate in their countries of origin and refugees and asylum seekers to be evacuated out of Libya in view of their resettlement. Our new programmes under the EU Emergency Trust Fund for Africa will help to protect vulnerable people, stabilise communities, and reduce hardship for migrants, refugees and local people in areas most affected by migratory flows. With these new programmes, we continue to support our neighbours in North Africa to respond together to migration-related challenges in ways that safeguard security, rights and dignity of migrants and refugees, in the mutual interest of Europeans and our neighbours."

Background

The five new **€61.5 million** programmes adopted by the Commission are as following:

The **first initiative** adopted (**€23 million**) aims at strengthening protection and resilience of vulnerable migrants and migrants at risk, refugees, Internally Displaced Persons (IDPs), returnees and host communities in Libya, while supporting efforts to improve migration management along the migration routes in the country. The United Nations High Commissioner for Refugees (UNHCR), the United Nations Population Fund (UNFPA) and the Italian NGO CESVI (Cooperazione e Sviluppo Onlus) in consortium with International Medical Corps (IMC) will implement this action.

The **second initiative** (**€18 million**) for community stabilisation aims at strengthening local government services in Libya, in particular in the municipalities most affected by migratory flows and/or damaged by the conflict, as well as improving the living conditions of vulnerable populations by enhancing access to basic services, community security and economic opportunities. The programme will be implemented by United Nations Development Programme (UNDP).

The **third initiative** adopted with **€12 million** complements the EU's ongoing Regional Development and Protection Programme, by contributing to the establishment and reinforcement of inclusive services and by fostering social cohesion and employment opportunities at community level. This action will be implemented by local and international civil society organisations (CSOs).

The **fourth initiative** amounting to **€5 million** is a regional entrepreneurship programme launched as part of the pilot initiatives on labour migration to strengthen the mobilisation of skills and resources of the African diaspora living in Europe. Expertise France will implement this programme.

In addition, the Commission expanded its activities under the Technical Cooperation Facility with an amount of **€3.5 million** to strengthen the monitoring and evaluation framework of the EUTF actions in the North of Africa window.

With this new package, the North of Africa window has committed **€647.7**

million responding to multiple needs across the region.

The EU Emergency Trust Fund for Africa was established in November 2015 to address the root causes of forced displacement and irregular migration and to contribute to better migration management. The general budget of the EU Emergency Trust Fund for Africa is worth over €4.5 billion, with around 89% of the contributions coming from the EU, and around 11% from EU Member States and other donors.

For more information

[EU Emergency Trust Fund for Africa – North of Africa window](#)

[Factsheet – EU Emergency Trust Fund for Africa – North of Africa window](#)

[Factsheet – EU Support on Migration in Libya](#)

[EU actions along the Western Mediterranean Route](#)

[Central Mediterranean Route: Protecting migrants and managing irregular flows](#)