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Remarks by Vice-President Dombrovskis at the press conference following the second day of the informal ECOFIN in Bucharest

Thank you Minister, thank you Eugen. First of all I would like to thank you for the excellent organisation of this informal ECOFIN here in Bucharest.

Indeed, today we discussed the topic of labour mobility. Freedom of movement of people is one of the founding principles of the Single Market and a cornerstone of European integration. It has provided European citizens with great opportunities and helped create a sense of belonging to the Union.

At the same time, labour mobility bears a number of challenges and the study presented by the Centre of European Policy Studies sheds some light on this.

While mobility has overall positive effects, when it is of a long-term nature it also leads to permanent changes in the quantity and possibly the skill composition of the labour force.

Brain drain is a real concern in some countries and large outflows can create skills and labour shortages in a number of sectors. On a larger scale, and depending on the specialisation of a national or regional economy, even a 'hand drain' of more manual occupations may be a source of concern.

In receiving countries, some perceive EU mobility as a cause of unfair competition and downwards pressure on wages and on the availability and quality of public services. Such perceptions are not always grounded on real evidence, but we need to take these concerns seriously.

Wage levels are an important factor for people to move to another Member State. But it is not the only factor and convergence to reduce east-west migration on this basis is already taking place. But it is also true that it is about convergence of living standards and quality of life in the widest sense.

Reducing disparities and stimulating economic convergence within the European Union remains the main way forward to ensure that we reduce the push factors which are driving migration.

At the national level, this means growth-enhancing investment and structural reforms, policies that ensure efficient, corruption-free institutions and access to high quality public goods and services such as health care, education and life-long learning policies that provide equal opportunities to gain high-quality education and skills relevant for the market and that facilitate upskilling of the domestic labour force, and measures to support fairness and inclusive growth to reduce income inequality to mention just a few policies.

At the European level, European structural and investment funds and the European Fund for Strategic Investment help promote upward convergence.

These EU funds in combination with growth-enhancing structural reforms help create opportunities for brain circulation and the return of migration to originally sending countries.

Ministers also discussed the role of taxation in supporting inclusive and sustainable growth.

Taxation policy is indeed a powerful tool to tackle issues such as income inequality, incentivising innovation or supporting a cleaner environment and improved health.

It is also about tax fairness and the fight against tax avoidance. Billions of euros are lost every year to state budgets due to tax avoidance.

Another issue to stress is that in many EU economies today we have a tax burden which is relatively high on labour. We constantly recommended to countries to shift away the tax burden from labour to other sources less detrimental to growth. In this, we should especially shift away the tax burden from lower paid labour.

Going forward, our view is that the EU needs a shared strategy for future tax policies. We need to factor in the changing environment with fast developing technologies, the digital economy and new forms of work, amongst others.

I would also like to thank Ángel Gurría, Secretary-General of the OECD, for updating Ministers on progress made in finding global solutions to digital taxation.

In this context, the Commission calls on Member States to coordinate their positions and speak with one voice to have more impact and influence in those international negotiations.

This is why the Commission proposed to have a dedicated debate in the May ECOFIN to coordinate our positions ahead of the G20. We will propose specific options for this debate.

The last point on our agenda was preparations for next week's G20 and the IMF meetings in Washington.

Brexit is likely to be the most debated topic.

But there are other issues that require our attention. These are continuous trade tensions, the slowdown in the world economy, but also policy preparedness in addressing population aging on the both sides of the Atlantic Ocean.

Thank you.

Declaration by the High Representative, Federica Mogherini, on behalf of the European Union, on the occasion of the 25th commemoration of the genocide against the Tutsi in Rwanda

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Yves Mersch: Competitiveness of Europe and European Financial Markets

Panel contribution by Yves Mersch, Member of the Executive Board of the ECB, at The Outlook for the Economy and Finance conference, Cernobbio, 6 April 2019

Competitiveness in Europe

To increase competitiveness is the main driver for higher potential growth. Member states have to pursue politics and establish institutions that stimulate the dynamics of a competitive private sector.

In most euro area countries potential growth has remained too low, however. Labour market rigidities and inefficient business environment conditions seem to be major impediments. In particular, labour supply is held back by policies which do not sufficiently motivate to take up jobs and do not tackle skill mismatch or labour shortages. Moreover, investment could be strengthened through fostering competition, improve the business environment and reduce uncertainty e.g. through improving the quality and efficiency of public institutions more generally.

Despite favourable economic and financing conditions, structural reform progress has been rather limited, including in several of the weakest countries.

The trend of insufficient structural reform implementation observed in particular since 2014 has continued during the last year. Only a few countries have engaged in more far-reaching structural reforms, most notably Greece and France. Some countries even reversed recent reforms that had been designed to improve the smooth functioning of the economy, most notably in the areas of labour markets and pension systems. Overall, reform efforts were not in line with reform needs.

These policy areas concern national competencies, but in a single markets cross-border spill-over effects are generated. Governments therefore need to act at national levels, enhanced through procedures, rules and harmonization at EU level.

Against the background of limited reform effort and in spite of the robust cyclical upswing, overall risks and vulnerabilities in many cases have only moderately declined since last year.

The Commission’s annual assessment of country specific recommended reforms finds only limited progress.[1] Out of 73 country specific recommendations (CSRs), none saw full implementation, and substantial progress was made in only two cases. For the overwhelming majority of CSRs (more than 90%), the Commission found that Member States made at best some or limited progress. On two CSRs, no progress was made. Most concerning, despite being very vulnerable, the countries experiencing excessive imbalances did not make significantly more reform progress during the last year than the EU average. The same is true for the countries experiencing imbalances. Overall, progress on reforms this year was as weak as last year.

The international role of the euro

But also on the European level there is not only a role to harmonize national action in order to reap the benefits of the Single Market. Where competence has been transferred to the EU level, the need to spur competitiveness is at the EU level.

The European Commission presented a set of action points to strengthen the euro’s global role. More recently, the COM has underscored the increasing relevance of capital markets union in supporting the international role of the euro amid geopolitical changes (e.g. Brexit and US foreign and trade policy).

To this end, the euro should become even more compelling as a means of payment and a trustworthy investment currency. Without prejudice to the ECB’s independence, we took note of the Commission’s support for our initiatives on market infrastructure and payments, which help to increase efficiency and financial market integration in the euro area.

International trade

It was important to resist, the temptation to gain competitive advantage or create national champions by tilting the system in one’s favour (e.g. in the area of tax, privacy, cyber security and fintech policies).

The costs of fragmentation of global trade would be high. IMF staff simulations of a global trading system that had been fragmented into three trading blocs show that in such a scenario, each of the blocs was overall worse off, although individual countries within the bloc may actually gain. These issues would also apply to other areas like the international flow of data and access to the global payments system.

There are five dimensions where progress is needed:

1. consensus on how to address social and economic grievances;
2. a rethinking of the appropriate mix of domestic policies;
3. strengthening and updating of the international rules of the game;
4. adequate management of global public goods;
5. securing the global financial safety net.

Payments systems

The ECB’s responsibility for promoting the smooth operation of payment systems indirectly supports the international standing of the euro. The Eurosystem has contributed to reshaping and consolidating the infrastructure for large-value payments, for post-trading services for financial instruments and, most recently, for instant retail payments.

Over the next two or three years we aim at

- taking measures to **consolidate TARGET2 and TARGET2-Securities (T2S**), in particular by delivering a centralised liquidity management function;
- developing a **single collateral management system** that will be capable of managing the assets used as collateral in Eurosystem credit operations for all euro area countries.

Harmonization agenda

More harmonization is necessary to achieve a safe and efficient European post trade landscape. The *European Post Trade Forum* (EPTF) Report identifies barriers which have not yet been dismantled (formerly known as “Giovannini Barriers”), as well as new bottlenecks which need to be addressed to promote more efficient and resilient market infrastructures in the EU. These include:

- Inefficient withholding tax collection procedures
- Legal inconsistencies and uncertainties
- Fragmented corporate actions and general meeting processes

More harmonisation of national insolvency rules is needed to make European resolution more effective. The recently agreed proposal (December 2018) is a minimum harmonization directive allowing member states to go further when transposing the rules into national law.

European issuance

- An important element in a well-functioning capital market is the smooth interplay between issuance on the primary market, investors and secondary markets. In Europe, the issuance and distribution of securities is still complex and operational cost are elevated. Securities are still issued along different national rules, standards and habits.
- Central Securities Depositories (CSD) play a pivotal role in this process. Today, issuers usually issue in one CSD. All other CSDs, and their national customer base, need to access these securities by connecting to this initial one. This chopped-up process is complex and relatively expensive. Investors and issuers alike see scope for improvements.

Remarks by Vice-President Valdis Dombrovskis at the informal ECOFIN press conference in Bucharest

Good afternoon,

First of all, I would like to thank the Minister and his teams for a warm welcome here in Bucharest. Multumesc!
I would also want to say multumesc to Romania for their skilful Presidency of the EU Council since the beginning of the year.
In its first 12 weeks, the Romanian presidency has closed an impressive 60 legislative files and reached provisional deals on 12 more. Congratulations on this success!

As Minister explained, today’s informal ECOFIN session focused on the future priorities and a topic close to my heart – the Capital Markets Union.
Also here the Romanian Presidency has been a great ally by over delivering on

expectations. One example that we have often discussed at ECOFIN and ECOFIN press conferences is the revision of the European Supervisory Authorities. We brought [this file] to a successful conclusion, which was perhaps not obvious one or two months ago.
In fact, I think the time is right to pay tribute also to Austrian, Bulgarian and Estonian Presidencies. They all contributed to building political but also technical buy-in for the Capital Markets Union files.
As we know, many of these files are technical and sometimes may lack political appeal, because they are difficult to explain to the general public.
But it is not one idea, one measure that can make a difference. It is about a sum of measures that, taken together, create a positive eco-system for capital markets to flourish.
I think we can be proud that we have managed to reach agreement on 11 out of 13 proposals put forward during this mandate.
Of course, the work is not completed.
I count on the next European Commission to continue to champion the Capital Markets Union project. Today we heard a strong political support from Finance Ministers and Central Bank Governors for this project.
I am convinced this will remain high on our agenda. .

Let me make a couple of additional points:
First – capital markets have a vital role to play in the transition to a climate-neutral economy. The Commission has its strategy for building a climate neutral economy by 2050, because climate change will just not go away. This is why we need to keep sustainable finance high on the agenda. Because there can be no transition without proper funding. I am therefore glad that the Finnish Presidency has identified sustainable finance as one of its priorities.

Second, we need to keep boosting local and regional capital markets in the EU. Capital markets in different countries are at different stage of development in terms of liquidity, depth or size. So our task goes beyond supporting only big players. We also need to invest in development of capital markets at national and regional level. It is known that small and medium size companies are the backbone of European economy. We need to ensure that they all have access to the capital regardless of their hometown. This is also why we promote convergence among economies and support inclusiveness in terms of geographical distribution.

Third, the European financial sector should fully embrace technological change while not ignoring increasing cyber threats. For this, Commission has come forward with an Action Plan for FinTech companies. In today's debate several Ministers stressed the need to reinforce our innovation capacities and support to disruptive companies – this of course goes beyond the financial sector.

Final point – several Ministers stressed the need to modernise our taxation system to make it fit for the 21st century and step up the fight against tax avoidance. This work will be brought forward in the frameworks of the OECD and G7. The Commission stands ready to support that work. And, as we have been often emphasising, in absence of international consensus, we have to be more ambitious at EU level.

Thank you.