Post-Covid: Solidarity and sustainability are shaping the future of the European Union

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- Excellences, Ladies and Gentlemen, Dear students.

- Avant de commencer mon discours qui sera en anglais comme annoncé, permettez-moi de vous adresser quelques mots en français.

- Je me sens très honoré et privilégié d’avoir été invité et de recevoir le titre de docteur honoris causa de l’ESCP Business School à Paris. Paris est une ville qui est très proche de mon cœur et de ma famille.

- En cette période difficile, marquée par le Covid, la question c’est naturellement posé si cette conférence devrait être maintenue. Si on raisonnait comme on l’a fait encore il y a quelques mois partout en Europe, elle aurait été annulée.

- Je crois qu’entretemps on s’est tous rendu compte qu’il faut apprendre de vivre avec ce virus, qui va nous accompagner encore pendant des mois sinon des années … et surtout nous en devons tirer les bonnes leçons.

- J’ai récemment appris que la grippe espagnole, qui a sévit à la fin de la 1ère guerre mondiale, a fait plus de victimes que l’ensemble de la 1ère guerre mondiale. Or, on a écrit, paraît-il, 40'000 livres sur la 1ère guerre mondiale et on a écrit 400 livres sur la grippe espagnole. Ceci nous montre que nous avons tendance à ne pas tirer les leçons de ces pandémies.

- À l’image de la photo noir et blanc qui s’épanouit dans une multitude de tonalités de gris entre les deux couleurs extrêmes, la bonne politique trouve des solutions pragmatiques dans la nuance : dans une pandémie, il faut affronter les défis et les résoudre pas à pas et ne pas s’étonner que semaine après semaine on ait appris de nouvelles choses et qu’il faille prendre d’autres décisions.

- Il faut ainsi trouver un nouvel équilibre : on ne pourra vivre de la même façon qu’avant la crise, mais en même temps nous ne pouvons pas mettre la terre entière en télétravail.

- Cette crise, durant laquelle l’économie mondiale était au ralenti pendant des mois, nous a montré sans aucun doute que l’activité humaine a un impact sur notre planète. Il est clair que ces mois d’activité réduite ont amélioré la santé de la planète d’une manière extraordinaire. Tirons-on les bonnes leçons ! Et ce en mettant en œuvre un développement durable, soucieux des fragiles équilibres de la planète grâce à une finance responsable.

- Le sujet de mon discours regarde vers l’intérieur : comment l’Europe peut-elle être plus solidaire et favoriser le développement durable ? Cependant, avant d’entrer dans le vif du sujet, je souhaite dire quelques mots sur le rôle de l’Europe dans le monde.

- L’Europe a longtemps cru qu’elle pourrait jouer un rôle important, mais son intégration a pris beaucoup de temps. Il est fondamental de se rendre compte que l’Europe a perdu, avec la 2ème guerre mondiale, le rôle primordial qu’elle jouait dans le monde.

- Elle est aujourd’hui coincée entre le marteau chinois et l’enclume américaine. Si nous voulons jouer un rôle au cours de ce siècle, nous devons construire une Europe plus forte, une Europe plus intégrée.

- Nous devons nous battre pour un monde tripolaire, un monde avec trois grand centres : la Chine, les Etats-Unis et l’Europe. Et il faut que ce triangle soit aussi équilatéral que possible. Tôt ou tard il faudra donc aussi réfléchir à, et mettre en place, une défense européenne.

Introduction: Europe, forged in crises

- Let me first thank ESCP Business School, and particularly its President, Philippe Houzé, and its Executive President and Dean, Frank Bournois, for inviting me to hold this keynote speech.

- It is a great honour for me to address you tonight – both those that are here with us in the audience and those following us live via web stream.

- Having recently celebrated its bicentenary, ESCP is not only the oldest business school in the world, it is also the only truly pan-European one, with campuses all over Europe.

- It is therefore only fitting that the topic that I want to discuss tonight is Europe and the future of the European Union.

- I am doing so at a time when Europe, suffering under the double impact of a sanitary and an economic crisis, faces momentous challenges. How the European Union overcomes this crisis will determine its future path.

- In his memoirs, Jean Monnet wrote that "Europe will be forged in crises, and will be the sum of the solutions adopted for those crises".

- This quote by one of the founding fathers of the EU, who was acutely aware that the EU is first and foremost a peace project, not only reflects the wisdom gained through the painstaking construction of Europe over many decades, it also shows remarkable foresight as a humbling reminder to all of us that the European project is not finished … and that every crisis is also an opportunity to continue building a better Europe.

- In my speech, I will therefore first look back at what has been achieved since the last crisis – the global financial crisis of 2008 – to then explore how the current crisis and the solutions the EU is now putting in place to overcome it are forging Europe's future.

<u>The EU since the global financial crisis</u>

- When commenting on the EU, there has long been a tendency to over-emphasize the EU's problems and failures and to downplay its many achievements.

- National governments are certainly not blameless in this, given that for years many governments liked to take credit for EU achievements while blaming the EU for problems they face at national level: from immigration to social disparities.

- First of all, it is important to always remember that the EU has brought warring nations together and has created the world's largest economic block. This is something that cannot and should not be underestimated.

- Thanks to a solid, underlying architecture and the resultant institutionalized dialogue between countries, the EU goes from strength to strength, as it learns and grows together through crises. In the absence of such a structured bilateral or multilateral dialogue, there is a strong risk for the relations between countries to go back to zero with every crisis or bilateral issue that flares up: the relations between Japan and Korea, who have gone through a cycle of ups and steep downs for decades now, is a perfect illustration of this risk, which the EU has essentially eliminated between Member States by providing a for a that ensures sustainable relations between European countries.

- But even without looking back all the way back to the European Steel and Coal Community, the Treaty of Rome or the Maastricht Treaty, the EU has continued to advance and improve the lives of millions of European citizens.

- Europe has taken great strides over the past decade alone. Something that is all too easily forgotten or taken for granted.

- Indeed, the financial crisis in 2008 triggered a whole raft of structural reforms.

- Starting out with a loss of trust in banks and between banks themselves, the crisis quickly became a liquidity crisis, which turned turned into a sovereign debt crisis and afterwards the Greek crisis, which ended up threatening the credibility of the Euro itself.

- The EU's response to this crisis contained two pillars:

    - Increasing financial stability and depositor protection, primarily through new financial sector regulation;

    - Strengthening EU fiscal and economic governance.

- At the same time, the fallout of the financial crisis also led to fairer taxation through increased transparency and the closing of loopholes in international taxation.

Increased financial stability

- In order to help regain confidence in the banking and financial system, the European Commission put in place a plethora of new regulation focusing primarily on financial stability and improved depositor protection.

- The crisis in fact triggered a veritable inflation of new acronyms: CRD 4 and CRR, MiFID 2, BRRD, EMIR, AIFMD, UCITS 5, PRIIP …

- However, the most comprehensive and fundamental change were arguably the introduction of a new EU supervisory architecture (ESFS or European System of Financial Supervision) in 2010 with three European Supervisory Authorities (ESAs) to coordinate micro-prudential supervision and a European Systemic Risk Board for macro-prudential supervision, and above all the creation of the Banking Union as of 2013.

- The latter is a key pillar of the roadmap, established in 2012, to deepen and further complete the Economic and Monetary Union.

- With the Banking Union, the EU has gone further than any other economic region in the world in establishing a comprehensive regulatory framework to supervise banks across different countries.

- The Banking Union was an unprecedented step for the Euro Area: indeed many commentators at the time doubted that the project would ever see the light of day. They were proven wrong.

- A year after it had been proposed, the first pillar of the Banking Union, the Single Supervisory Mechanism entered into force in 2013 and became operational in 2014. It conferred new supervisory powers to the European Central Bank: today the 115 most significant banks in Europe are under the direct supervision of the ECB. These banks hold almost 82% of banking assets in the euro area.

- The second pillar of the Banking Union, the Single Resolution Mechanism, entered into force shortly afterwards and was central to breaking the doom loop between sovereigns and their banks. In order to ensure a credible and efficient resolution system, the Single Resolution Mechanism was accompanied by the establishment of the Single Resolution Fund (SRF).

- Work on the third pillar, the European Deposit Guarantee Scheme, is still ongoing. I am convinced that such a common deposit guarantee scheme is absolutely necessary. However, discussions on such a system which in which European countries would partially share the burden of protecting clients across the EU, have unfortunately shown that national protectionism remains a reality. The creation of EDIS would eliminate the incentive for depositors to withdraw money from a banking system that is in trouble, which is exactly what happened during the financial crisis. Not every country is ready to go this far, and prefers to look after its depositors first.

- Moreover, the EU has put in place a single rulebook to ensure that the rules governing financial services across Europe are consistent and coherent.

- Even though it is not yet complete, thanks to the banking union the European banking system is today better prepared, much stronger and better capitalized to face headwinds.

- Although Europe's banks were the most affected by the financial crisis, the latter also exposed weaknesses in Europe's insurance sector.

- With the Solvency II framework, the EU addressed those weaknesses by setting out requirements applicable to insurance and reinsurance companies in the EU with the aim to ensure the adequate protection of policyholders and beneficiaries.

- At the core of the Solvency II regulatory framework is an economic risk-based approach, which should enable the assessment of the "overall solvency" of insurance and reinsurance firms through both quantitative and qualitative measures.

- Solvency II has allowed a truly functioning internal market for insurance to emerge.

- Finally, the investment fund industry, which proved quite resilient in these turbulent times, also saw an overhaul of its governing regimes after the financial crisis, notably with the introduction of UCITS 5 in 2016, which reinforced the role of depositaries, as well as AIFMD in 2013, which created a comprehensive framework to regulate the management, administration and marketing of alternative investment funds in the EU.

Strenghtening EU fiscal and economic governance

- It was, however, not just Europe’s financial system that was ill prepared to deal with the financial crisis.

- For a variety reasons, including an incomplete set of budgetary rules, Europe went into the financial crisis with uneven public finances and an unhealthy budgetary situation in several Member States.

- At the height of the crisis the general government deficit in the Euro Area dipped below the bar of -6% while Euro area debt-to-GDP ratio peaked at 95% in 2014.

- One of the most important milestones over the past decade is therefore undoubtedly the introduction of the European Semester in 2010 and the strengthening of the Stability and Growth Pact.

- Before the financial crisis, economic and budgetary policy planning took place essentially at the national level, with only a limited coordinated overview at EU level of these national efforts.

- A key challenge in ensuring better coordination was to strike the right balance, taking into account the very diverse economic make-up and fiscal traditions across different Member States.

- Central pillars of these efforts were the "Six Pack" (which came into force in December 2011) and the "Two Pack" (which entered into force in May 2013), reinforced by the Intergovernmental Treaty on Stability, Coordination and Governance (which entered into force in January 2013 in its 25 signatory countries).

- This new integrated system introduced a series of tools to ensure better coordination as well as more responsible budgeting, including an additional cycle of monitoring for the Euro area (including the need to submit Draft Budgetary Plans in mid-October), enhanced macroeconomic surveillance, notably through the macroeconomic imbalance procedure, as well as legally binding, medium-term budgetary objectives enshrined in national law.

- Again, like the Banking Union, this is an achievement that is all too easily taken for granted: Between 2014 and 2019, Spain, Portugal and Cyprus, amongst others, all of which were heavily impacted by the financial crisis, have managed to consistently reduce their debt-to-GDP ratio.

- A major achievement was reached last year, when the ECOFIN Council decided to put an end to the procedure concerning Spain's excessive deficit. On the basis of recommendations from the European Commission, Spain managed to close 2018 with a budget deficit below the 3% limit set by the Stability and Growth Pact.

- This means that all excessive deficit procedures opened at the height of the euro crisis have now been closed.

- As a result, the EU entered today's crisis much better equipped and in much better shape than it was a decade ago.

- The same is true for the Euro Area.

- The sovereign debt crisis as well as the Greek crisis, which resulted from the financial crisis, threatened the survival of the Euro.

- In order to support those Euro countries most severely impacted, Member States put in place the European Financial Stability Facility as a temporary vehicle, which was replaced in 2012 by the European Stability Mechanism as a permanent Euro area institution.

- The ESM, of which I am particularly fond as it is also a Luxembourg-based institution, is certainly one of the most significant achievements in the last decade, having permanently reinforced the Euro area architecture.

- During the debt crisis, the EFSF and the ESM lent a total of EUR 295 billion to Greece, Ireland, Portugal, Spain and Cyprus, alleviating the financial pressure on those countries and ultimately holding the euro together.

- Moreover, as the ESM obtains its funding in international markets, no taxpayer money is spent on its assistance programmes.

- In August 2018, Greece concluded the ESM programme with no more follow-up rescue programmes, meaning that for the first time since early 2010 Greece can today stand on its own feet.

- Thanks to these – hard-fought – efforts, the Euro survived its teenage crisis, and has come out stronger for it. Today, even in the midst of the worst recession since the Second World War, no one seriously doubts the survival of the Euro.

- The ESM is a symbol of how European countries, faced with seemingly insurmountable odds, can come together in solidarity.

- More recently, another important milestone was reached in December 2019, when the Eurogroup agreed on a vast reform of the ESM to give it enhanced responsibilities, notably outside of financial assistance programmes.

- One of the key elements is the setting up of a common backstop to the Single Resolution Fund (SRF) at the ESM.

- In case of need, the ESM will provide a credit line to the SRF in order to ensure that the latter has enough firepower to save troubled financial institutions.

- This is a significant additional element to help further strengthen the Banking Union as well as the Economic and Monetary Union.

- This is why it is important to sign the revised ESM treaty as quickly as possible.

Fairer taxation

- The global financial crisis, which saw public debts soar in many countries, not least because governments had to bail out banks, also triggered an international drive towards increased tax transparency and calls to combat corporate tax avoidance.

- Starting with the exchange of information upon request between tax authorities, which had become the international standard by 2009, the focus quickly moved to establishing the automatic exchange of information as the de facto global standard.

- While the first European Directive on Administrative Cooperation in 2011 still limited automatic exchange to 5 categories of income and capital, the US's Foreign Account Tax Compliance Act, better known as FATCA, led to the creation of the Common Reporting Standard (CRS) at OECD level in 2014. Luxembourg was among the early adopters of this new global standard of automatic exchange of information (as of 2017). Fully aware that new winds were blowing in matters of international tax transparency, Luxembourg broke with its tradition of banking secrecy.

- DAC 2 introduced the OECD Common Reporting Standard into European legislation in 2014, while DAC 3 introduced, under the Luxembourg EU presidency, the automatic exchange on tax rulings and advanced pricing agreements.

- DAC continues to evolve to the extent that the EU is today discussing the 7th version of DAC, which aims to address the challenges posed by the digitalization of the economy.

- Probably the most important milestone this past decade on the tax front has been the OECD's BEPS project (Base Erosion and Profit Shifting): Working together in the OECD/G20 Inclusive Framework on BEPS, over 135 countries are implementing 15 Actions to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment.

- The EU was a first mover in implementation through its Anti-Tax Avoidance Directives: ATAD 1 and ATAD 2, which introduced measures such as interest limitation rules, exit taxation, a general anti-abuse rule, a controlled foreign company rule, as well as an intra-EU anti-hybrid rule extended to include mismatch provisions to third countries.

- Luxembourg has been a constructive partner at international and European level in ensuring greater transparency and faire taxation.

- As you can see, the EU has evolved substantially since the global financial crisis in 2008. The reforms that the EU has undertaken over the past 10 years and more have resulted in a more stable and better protected financial system, stronger economic fundamentals and increased budgetary discipline, a stronger euro as well as fairer taxation.

<ins>The Covid Crisis: An opportunity for the EU to grow closer and build back better</ins>

- As the saying goes, the time to repair the roof is when the sun is shining. The EU has used the past decade well – a decade that saw its fair share of both sunshine and rain. As a result, Europe entered the pandemic in better shape than it did the global financial crisis in 2008.

- In 2019, Europe's economy was set to expand for the seventh year in a row with employment levels growing to record levels and unemployment decreasing markedly. Over that period the Euro area grew on average by 1.6%. Over the past 7 years, more than 15 million new jobs were created in the EU.

- However, the pandemic, which hit unexpectedly, and the impact of partial lockdowns suddenly halted this economic growth trajectory.

- In the wake of the crisis, according to the latest projections by the Commission, EU GDP is forecast to contract by more than 8.3% this year – far deeper than during the global financial crisis in 2009 – and to rebound by only 5.8 % in 2021.

- This crisis is indeed a very different beast from the financial crisis.

- The current crisis, however, is an external, symmetric shock that has hit all economies at the same time. It is not the result of structural imbalances in individual countries or failures in the financial sector.

- The answers to dealing with this crisis are therefore by definition different, including when it comes to the role of the EU and its institutions such as the EIB or the ESM.

- Because of partial lockdowns to help slow the spread of the virus and give healthcare systems a chance to cope with the pandemic, governments across the EU had to step in rapidly and resolutely to support their economies and the livelihoods of their citizens.

- Luxembourg, for instance, introduced measures accounting for around 19.3% of GDP (or 11.4 billion EUR) to provide liquidity to companies, implement short-term working schemes, supply the necessary medical equipment, provide guarantees and encourage investment.

- As in many other countries, this was a support package of unprecedented scale. Yet it was the only possible answer.

- The EU supported these national efforts by providing flexibility in state aid regulations and fiscal rules.

- It is however fair to say, that a joint European response was sorely lacking in the very early phase of the pandemic.

- The focus on national priorities that led to the temporary closure of internal borders within the EU was clearly a step backward from shared European values. It is something EU member states need to avoid at all costs in the future.

- As a founding member of the EU, home to the village of Schengen, and relying on open borders and cross-border workers, Luxembourg is particularly aware of the benefits of the Single Market and the freedom of movement.

- However, member states did manage to pull together to create a common response in order to avoid structural damage to the European economy and society. They did so in record time and broke new ground.

- Within weeks, European countries came together to save lives, jobs and businesses.

- The 3-pronged emergency response package, worth EUR 540 billion, that the Eurogroup developed in a short period of time is truly a symbol of European solidarity. It is built on 3 safety nets:

    - SURE: EUR 100 bn in loans to help protect and save jobs in Europe.
    - EIB Guarantee Fund: EUR 25 billion guarantee fund to support European firms to deal with the crisis.
    - ESM – Pandemic crisis support: EUR 240 billion to help countries fight the sanitary crisis through favorable lending terms and without macroeconomic conditions attached.

- Similarly, despite lengthy discussions at the European Council level (90 hours to be precise), the agreement reached on the EUR 1.1 trillion for the multiannual financial framework (2021-2027) and the EUR 750 billion for the Next Generation EU instrument demonstrates that EU Member States can come together in the hour of need to support each other and Europe as a whole.

- Already on March 25, the prime ministers of 9 Member States, including France and Luxembourg, called for joint action through the issuance of common debt to support countries overcome the crisis.

- It is in the EU's common interest to support those who were hit hardest by the pandemic. Countries relying on sectors that have suffered the most, notably tourism, will receive around 52% of EU grants under the Recovery and Resilience facility to get their economies back on track.

- Overall, through the emergency response measures, the MFF and the Next Generation EU, the EU has managed to mobilise a support and recovery package worth more than 2 trillion EUR.

- Moreover, Europe has entered into unchartered territory as a result of the crisis:

    - Firstly, and for the first time in its history, the EU will raise common debt on international capital markets!
    - Secondly, more than half of the recovery package will be disbursed as grants rather loans (and thus not add to government debt loads)

- All of this is a remarkable achievement: it is a bold statement of unity and solidarity at a time when Europe needed it most.

- However, while acknowledging that the EU has today shown more solidarity than any other time in its history, it is important to remember that Europe cannot solve every problem.

- The response package is unprecedented indeed, but is reasonable when compared to the efforts by national governments. Next Generation EU is worth around 4.7% of EU annual GDP, but it is spread over several years.

- The aggregate amount of discretionary fiscal measures by Euro area governments to support their economies during Covid has reached 4% of GDP, while liquidity support through public guarantee schemes and deferred tax payments is estimated at 25% of GDP.

- This helps put the EU response in perspective.

- Indeed, European solidarity must go hand in hand with national responsibility. Every country remains responsible to overcome this crisis.

- It is highly likely that fiscal support will need to be sustained in 2021, while investment by EU governments will need to further increase to raise the long-term growth potential of the economy.

- A key challenge, however, will be to steer Europe's economies through the crisis while ensuring the sustainability of public finances in the medium-term.

- The activation of the General Escape Clause to allow governments to deviate from the Stability and Growth Pact was a historic decision: it was also the right decision at the right time.

- However, the focus has today shifted from emergency and support measures to boosting economic recovery: It is now important to have a coordinated approach and address structural divergences across Member States.

- As part of the recovery package, the EU has set the right signals: the recovery needs to be aligned with the green and digital transformation of the EU.

- The recovery is in fact an opportunity to "build back better".

<u>Europe's future: Global, green and digital</u>

- Europe's courageous monetary and fiscal response to the Corona crisis has not only increased solidarity within the EU, it has also strengthened the EU's position and credibility globally.

- Indeed, let us not forgot that until recently many commentators around the world seriously put in question the survival of the European project because of a rise of Euroscepticism culminating in Brexit.

- However, elections in several EU members States, including here in France, as well as the last European elections, shifted the gravitational centre back to the liberal and social pro-EU centre.

- Brexit is in fact partly responsible for this reinvigorated pro-EU sentiment amongst Europe's citizens.

- The difficult negotiations around Brexit and market access, but also the inevitable economic impact of leaving the EU, has highlighted the benefits of being part of the Single Market and the world's largest trading block. The political and economic weight that a union of 27 countries and 500 million citizens has on the world stage is simply larger than that of a nation of 60 million.

- The EU has an important role to play in the ongoing strategic competition between the US and China, its two biggest trading partners.

- Let us avoid using the language of the cold war, as some people currently do. Nevertheless, a decoupling between the world's two super powers is currently taking place. It is clear that the EU needs to position itself strategically in this new geopolitical context.

- In a policy brief during the height of the pandemic in April, EU High Representative Josep Borrell said that Europe needs a new kind of globalisation capable of striking a balance between the advantages of open markets and interdependence, and between the sovereignty and security of countries.

- Building on the Green Deal and the Digital Agenda, the EU Recovery Plan already integrates this ambition to achieve strategic autonomy. Indeed, in areas such as technologies, AI, Data as well as supply chains, it is important that the EU remains competitive vis-à-vis the US and China and that it is capable of sourcing and securing essential products, utilities and services on its own territory. The sanitary crisis has shown how important stockpiling, notably in the health sector, and the existence of short supply chains are in a state of emergency.

- In order to illustrate the need to increase Europe's competiveness, allow me to turn to a sector which I follow particularly closely as Finance Minister: the financial sector.

- Since the global financial crisis, Europe's financial sector has lost ground to its competitors in the US and China.

- Let me give you two examples to illustrate this gap:

    - Before the financial crisis – in 2007 – half of the 10 largest banks in the world (by Tier 1 capital) were European, today only 1 European bank (HSBC) is left in a Top 10 dominated by Chinese and US banks.
    - When it comes to the share of assets the Top 10 asset managers in the world, Europe and the US were almost evenly split in 2007, today

US asset managers represent more than 95% of the assets of the Top 10 asset managers in the world.

- The Capital Markets Union (CMU) provides part of the answer, especially in a post-Covid context. Unlike the last financial crisis, the financial sector is today part of the solution.

- In the coming months, Europe will need more investment and will need to create new sources of sustainable investment for firms, both SMEs and larger corporates, beyond purely national borders.

- The publication of the Commission's CMU action plan is therefore particularly timely as countries have exited lockdowns in Europe and entered the recovery phase proper.

- It is true that banks have been crucial in supporting firms to face the short-term economic consequences of lockdowns all over Europe. And they are a part of the economic recovery.

- However, bank loans can only be part of the answer to economic recovery. What Europe needs is a healthy mix of different financing tools, and capital markets as well as securitization will have to be an integral part.

- Governments and banks alone cannot finance Europe's recovery. Capital markets are the key to unlocking private investment in industries, SMEs and innovation to help spur economic growth.

- On 24 July 2020, the European Commission adopted a Capital Markets Recovery Package to help capital markets support businesses to recover from the COVID-19 pandemic. It includes adjustments to MiFID II, the Securitization framework, and to the Prospectus Regulation. A new type of EU Recovery prospectus aims to provide quicker access for companies to new funding.

- Post-Covid, the further completion and development of the EU Single Market in financial services should be a priority. Thanks to UCITS, Europe has provided an important blueprint for global cross-border fund distribution. Recent regulatory projects like the Pan-European Personal Pension Product (PEPP) and the Capital Markets Union will provide new opportunities for the financial industry by further breaking down cross-border barriers, while offering more choice to savers and investors.

- The EU must not give in to the temptation to use Brexit, and the departure from the EU of the world's largest financial centre, as an excuse to erect new barriers in the single market. In order to remain competitive, it is important that the EU looks beyond its borders, adapts to new developments at international level, and maintains bridges with the leading financial centres of the world.

- With frameworks like UCITS and AIFMD, Europe has created a global investment fund standard. A well-oiled and well-functioning ecosystem and international value chain has been established over many decades , involving fund administrators, depositaries and portfolio managers, with the latter often sitting in the leading asset management hubs outside the EU, such as New York or Hong Kong, and since Brexit, London. Current negotiations around Brexit and market access for the UK should not put in jeopardy this true EU success story.

- It also a reality, however, that Europe is today not a leader when it comes to digitization. Far from it. Not a single European super-computer is featured among the Top 10 of the most powerful computers in the world, only 5 of 39 global Fintech unicorns are European and Europe is home to only 4 of the world's Top100 AI start-ups.

- Competition is indeed strong. While we Europeans rightly celebrate the fact that the EU has created the most sophisticated legal framework in the world for data protection, Chinese players create new innovative products by exploiting a staggering amount of client data, unhampered by regulation.

- Establishing a true Digital Single Market must therefore be a priority.

- It is only in those areas where the EU has created harmonized legislation and thus provided the opportunity for firms to passport their services, where the necessary critical mass can be achieved to create European and global champions.

- PSD and PSD 2 have shown that Europe can lead the way in creating an entirely new pan-European industry thanks to innovative regulation. Europe’s open banking is today copied in many other jurisdictions across the world.

- The Covid pandemic has accelerated the digital transformation in nearly every industry: The period of partial lockdowns has dramatically increased the use of digital tools to communicate, to work remotely, to shop or to pay.

- It is important that the the EU and its member states capitalize on this digital leap: by investing in digital infrastructure, enabling strategic technologies such as AI and Big Data, and bridging the digital skills gap.

- So far, the e-commerce and tech giants, the majority of which are American, are the big winners of this crisis.

- The big questions that already existed before the pandemic on how to deal with digital transformation of the economy have consequently become even more important: safeguarding data protection, ensuring fair competition, efficiently taxing an increasingly digitalized economy.

- As to the latter, it will be important to find a global solution at OECD level to deal with the tax challenges the digital economy poses. I am confident that once the US elections are over, an international agreement on the proposed two pillars, profit allocation and taxing rights on the one hand and minimum taxation on the other, can be possible.

- In the end, only a global answer will be truly efficient…and sustainable.

- While the EU may trail the US and China when it comes to the digital transition, the EU is today already a leader in the area of sustainability.

- With the new Green Deal, which aims for climate neutrality by the mid-century, the EU has set out a clear ambition to become the global leader in sustainable economic development and green technology.

- Competitive sustainability is a key objective of the Green Deal and has been further strengthened by the EU Recovery Plan, under which the EU Commission will assess the contribution to the green and digital transition of Member States' recovery and resilience plans.

- In her State of the Union Address, Commission President von der Leyen, not only once again underlined this European ambition but further strengthened it by announcing a more ambitious target of a 55% cut of greenhouse gas emissions by 2030.

- Sustainable finance will play a key role in achieving these ambitions.

- Under the Green Deal, the European green deal investment plan presented in January, will mobilise at least EUR 1 trillion of sustainable investments over the next decade.

- I also welcome the Commission's intention to raise 30% of its 750bn Covid recovery package through green bonds, which would make the EU the largest green bond issuer in the world.

- When it comes to sustainable finance, Europe already today leads the pack.

- According to the European Central Bank, the euro is the leading currency for green finance, accounting for nearly half of global green bond issuance in 2019.

- Europe is also the leading market for sustainable investment, accounting for 46% of global sustainable investing assets in 2018.

- The EU needs to capitalize on this: sustainable finance represents an opportunity for Europe to show global leadership.

- The EU sustainable finance action plan has put Europe on the right track to help re-orient capital flows towards a more stustainable economy.

- Work on the different pillars is progressing: the cornerstone of the EU's plan, the Taxonomy Regulation which provides a classification system for sustainable activities, was published in the Official Journal in June.

- With the taxonomy, the EU Green Bond Standard and the inclusion of sustainability in financial advice, the EU is going further than any other region in the world in providing a comprehensive framework to help channel private and public investments into green and sustainable projects.

- The current crisis will increase the demand for sustainable investments, both from retail clients as well as institutional clients.

- 2019 was already a record year for sustainable investment: European sustainable funds now hold a EUR 668 billion of assets, up 58% from 2018 (Morningstar). I am convinced that this record will be broken in 2020.

- Beyond the efforts to combat climate change, which are ongoing, a lot of investment now and specifically post-recovery will have to go into social projects (housing, combating unemployment, etc…) as well as healthcare infrastructure and services.

- The Morgan Stanley Foundation calculates that issuance of ESG bonds in April was 272% higher than in the same month of 2019, at a total of USD 48.5bn. Most of the issuance proceeds are earmarked for projects linked to recovery from the coronavirus pandemic, with sovereigns and supranational institutions accounting for 76% of the investment.

- I believe that post-Covid the growth we've seen in green bonds over the past few years will be complemented by a significant rise in social and sustainability bonds.

- A few weeks ago, Luxembourg became the first country in Europe to issue a sovereign sustainability bond. The bond is listed on the Luxembourg Green Exchange, the world's leading platform for green and sustainable bonds.

- The 1.5 billion EUR 12-year bond met with incredible investor demand, and was rapidly and massively oversubscribed. This shows that investor appetite for sustainable products is very high.

- To ensure the highest standards of transparency and investor information, the bond was listed on the Luxembourg Green Exchange, global leader for the listing of sustainable securities and listing more than half of the world's green bonds.

- In order to be able to issue sustainable bonds, Luxembourg has also given itself a sustainability bond framework to clearly define environmental and social criteria to identify eligible projects.

- The framework, published on September 2nd, was another first: not only is it the first sustainability bond framework in Europe, it is also the first in the world to already be aligned with the latest EU recommendations for a green taxonomy and EU Green Bond Standard.

- Sustainability bonds are an emerging trend and with this first sovereign issue in Europe, Luxembourg hopes to encourage other issuers to follow suit and help diversify the market.

- Shifting from billions to trillions in sustainable investment will require a concerted effort from the public and the private sector. New tools such as sustainability-linked bonds or transition bonds will be needed.

- This crisis has put many things in question: it is important to seize the momentum and help drive forward the global finance transition…a transition with the EU at the helm.

Conclusion: Nationalism, the road to nowhere

- I have tried to illustrate how far the EU has come since the dark days of the global financial crisis by creating a more stable, resilient and fairer union. At the same time, I have underlined the challenges that the EU faces in order to remain competitive vis-à-vis the US and China, who have entered a new phase of strategic competition.

- With the Covid crisis, the EU faces a common challenge of a magnitude Europe has not seen since the end of World War 2. It is, however, also an opportunity for the EU to take another quantum leap.

- The time is now to grow closer and build back better … to build a more resilient and sustainable EU, on a foundation of increased solidarity.

- The EU has passed its first stress test in this context. The EU Recovery Package is proof of this.

- However, the skies have not cleared. There will be no smooth sailing from here on out: most if not all EU countries will continue to suffer under the impact of the sanitary and economic crisis for many months to come.

- It is in times of economic and social stress that nationalism rears its ugly head.

- It is crucial to remember and to remind people that without the EU, without the joint efforts and common solutions, it would have been impossible to overcome the financial crisis in 2008. What hope do we have to overcome the current crisis, if not together, as a Union?

- As a Finance Minister, as a Luxembourger, as a European, I am deeply convinced that nationalism inevitably leads to a dead end. To quote François Mitterrand: “Le nationalisme, c’est la guerre!”

- The EU is more than the sum of its parts.

- In a world threatened by climate change, trade wars and national egotism, the EU must be a beacon of enlightenment, a defender of democracy and the rule of law, and a champion of multilateralism.