Article – Coming up: Covid-19 recovery plan, contingency EU budget, tyres

Support for the economy

The economy has slowed down sharply due to the coronavirus outbreak and the EU is looking into ways to get it going again. The European Commission is expected to come up with a new proposal for a bigger EU budget for 2021-2027 to support the recovery. MEPs will discuss the issue with the Commission and the Council on Wednesday and will vote on a resolution later in the week.

Finding an agreement on a multibillion-euro financial plan takes time and it is becoming more and more likely that there will be a delay before the start of the implementation of the 2021-2027 budget. MEPs will vote on a resolution on Wednesday calling on the Commission to present a contingency budget proposal by 15 June to avoid disruption for farmers, companies and organisations counting on EU funds.

Find out what the EU is doing to fight Covid-19 and mitigate its impact.

Tyre labelling

Parliament will vote on new tyre labelling rules on Wednesday that will ensure consumers have the necessary information to choose fuel-efficient tyres when purchasing.

Contact tracing apps

Mobile apps could be a powerful ally in the fight against Covid-19 as they can help track people who have been in contact with an infected person. However, MEPs want to make sure they are in line with data protection rules. A plenary debate on the issue will be held on Thursday.

Hungary

The coronavirus crisis has led to new concerns about the rule of law in Hungary as the government in Budapest now has the power to rule by decree for an indefinite period of time. MEPs will discuss the situation with the Council and the Commission on Wednesday.

Water reuse

On Wednesday Parliament will vote on rules to promote the reuse of water in agricultural irrigation to help alleviate stress on water supplies.

EU budget

MEPs will vote on Wednesday on whether to approve the implementation of the EU’s 2018 budget by the different institutions and agencies, in what is known as the discharge procedure.

Committees

Parliamentary committees will also meet this week to discuss a range of issues from the EU’s plans to build a circular economy based on the re-use and recycling of products and biodiversity to sustainable mobility and ethical issues around articial intelligence.

Relocation of unaccompanied children: challenges and good practices

FRA's report "Relocation of unaccompanied children: applying good practices to future schemes" highlights the challenges and good practices gathered in the implementation of different mandatory and voluntary relocation programmes since 2015.

The report focuses on key steps of the relocation procedure from the moment a child is identified for relocation to the child's integration in the Member State of destination.

Based on FRA's desk research and over 45 interviews with 72 representatives from national authorities, European institutions, international organisations and civil society organisations, the Agency calls on the EU and its Member States to consider the following four measures:

- putting in place reasonable timelines for relocation of unaccompanied children that allow for the effective protection of the child;
- using eligibility criteria based on the child's vulnerability and protection needs;
- ensuring the child is supported by a legal guardian during all steps in the relocation;
- maintaining family unity and facilitating family reunion if this is in the best interests of the child.

Background information:

FRA conducted the interviews between November 2019 and March 2020 in 10 EU Member States: Belgium, Finland, France, Germany, Greece, Ireland, Italy, Malta, the Netherlands and Portugal.

Video Tele-Conference of two JCC Montenegro Co-Chairs

Roberto Ciambetti (IT/ECR), President of the Regional Council of Veneto, and **Aleksandar Kašćelan**, Mayor of the Old Royal Capital City of Cetinje, Montenegro, **the Co-Chairs of the Joint Consultative Committee of the European Committee of the Regions (CoR) and Montenegro (JCC Montenegro)**, held a video meeting on Friday, 8 May 2020. The talks demonstrated how CoR members are constantly engaged in cooperation with local and regional authorities in the EU candidate countries, such as Montenegro.

The Co-Chairs exchanged information on coronavirus pandemic. Mr Ciambetti's Veneto region was among the first and hardest hit in Europe. In Montenegro, on the other hand, the number of cases was low, and in Cetinje there were none. However, both Veneto, as the whole of Italy, and Cetinje and the whole of Montenegro, suffered heavy economic losses due to the halt of practically all economic activities during the period of confinement. National, regional, and local authorities are helping the businesses, especially small and medium ones. Both politicians agreed though that more help should come from the EU.

In particular, the Co-Chairs will further exchange information to find common solutions to mitigate the economic impact of the crisis. The tourism sector has been severely affected by the economic crisis and both EU regions and regions in Montenegro will act together to be able to revive it as soon as possible on the two sides of the Adriatic Sea.

The discussion has also included the draft five-year JCC Montenegro Work programme and the future cooperation in general. The Co-Chairs decided to intensify their contacts before the next JCC Montenegro meeting, which will lead to concrete joint actions. Mr Ciambetti also invited his Montenegrin counterpart to visit him in the Veneto Regional Council when the circumstances allow, and Mr Kašćelan gladly accepted the invitation.

This was the first meeting between JCC Montenegro Co-Chairs in the new CoR mandate. Normally, one meeting of JCC Montenegro is held in the first half of the year in Brussels, organised by the European Committee of the Regions as part of its Enlargement Day – the main annual EU enlargement event in Brussels. The second yearly JCC Montenegro meeting takes place in Montenegro in autumn. Because of Covid-19 pandemic, there will be no large in-person conferences in Brussels during the first half of 2020. This makes the meeting between Mr Ciambetti and Mr Kašćelan even more important.

Yves Mersch: An ECB digital currency – a flight of fancy?

SPEECH

Speech by Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the Consensus 2020 virtual conference, 11 May 2020

11 May 2020

A recent survey among 66 central banks by the Bank for International Settlements shows that more than 80% are working on central bank digital currencies (CBDCs).[1]

The European Central Bank is one of them.

Not because we want to keep up with fashionable trends, but because we have to be ready. Ready to embrace financial technological innovation which has the potential to transform payments and money faster, and in more disruptive ways, than ever before.

We are technology neutral. But if our customers, the people of Europe signalled a change in payments behaviour, we would want to preserve their direct link to the ultimate owner of our currency by maintaining their access to central bank liabilities in euro. Although cash often gets a bad press, demand is not receding. We currently see no indication that the public at large is willing to abandon the valued and trusted advantages of cash. But we are preparing to be ready should things change.

Part of ECB mandate to be ready for change

One implication of financial technological innovation could be an increasingly cashless economy in which people may no longer be able to hold risk-free central bank money. Reliable access to money would then hinge on the stability and efficiency of private retail infrastructures. And trust in money itself would rely on trust in the intermediaries that issue private money.[2]

This is one reason why central banks keep fully up to speed on financial technological developments. After all, providing safe money and a reliable means of payment have been an integral part of the mandate and core business of central banks since their very inception. The ECB is no exception.

So we should be looking ahead and consider whether, in the future, central banks will need to provide the public with some form of digital currency. While electronic payments are already crowding out the use of cash in some countries, whose currencies seem less attractive than the euro, there is no such trend away from cash in the euro area. Some 76% of all transactions in the euro area are carried out in cash, amounting to more than half of the total value of all payments.[3] The demand for cash in the euro area currently outstrips the rate of nominal GDP growth. In crisis times, the demand for cash surges even higher. At mid-March this year, the weekly increase in the value of banknotes in circulation almost reached the historical peak of €19 billion.[4]

The ECB’s debate on CBDCs is therefore mainly analytical. Whether and when it becomes more of a policy debate will largely depend on the preferences of households. We are always willing to innovate in the form of money and payment services that we provide. If, for instance, people voiced a preference tomorrow for plastic or polymer banknotes rather than the traditional paper ones, we would happily accommodate them. In the same vein, we closely follow technological developments and reflect on the type of money and payments that are best suited to the needs of an increasingly digital economy.

The lack of a concrete “business case” for a CBDC at present should and does not stop us from seriously exploring the optimal design of a CBDC so that we will be well prepared should we ever take a policy decision to issue a digital currency. To this end, we have set up a task force on a CBDC within the Eurosystem.

Let me give you a preview of our deliberations, starting with different design options.

Legally solid despite fancy design?

Most of the money issued by central banks is in fact already digital, albeit not called CBDC. This is true for the bulk of the money issued through our wholesale credit operations with our counterparties. At present, access to the central bank balance sheet offers the possibility to access digital central bank money.

What could change in the future is the scope of the parties eligible to access our central bank balance sheets. Indeed, this lies at the heart of the discussion on CBDCs.

A wholesale CBDC, restricted to a limited group of financial counterparties, would be largely business as usual. However, a retail CBDC, accessible to all, would be a game changer. So a retail CBDC is now our main focus.

Setting up a CBDC would require a solid legal basis, in line with the principle of conferral under EU law. One key consideration here is whether a retail CBDC could and should have the same legal tender status as banknotes and coins. In practice, legal tender status implies that a CBDC would have to be usable at any location and under any condition, possibly even offline. Without legal tender status, the legal basis would need to be clarified, as would the relationship between a CBDC and euro banknotes and coins, along with the process by which one could be exchanged for the other. Should it not be acknowledged that the ECB’s exclusive right to authorise issuance in euro would also be applicable to a digital issuance?

A retail CBDC could be based on digital tokens, which would circulate in a decentralised manner – that is without a central ledger – and allow for anonymity towards the central bank, similar to cash. Some argue that a token-based digital currency might not guarantee complete anonymity. If that proved to be the case, it would inevitably raise social, political and legal issues. We are currently looking into the legal questions raised by the potential use of intermediaries to facilitate the circulation of a CBDC and also the processing of transactions in a CBDC. To what extent are we permitted to outsource public law tasks to private entities? And what would be the appropriate extent of supervision over such entities?

Alternatively, a retail CBDC could be based on deposit accounts with the central bank. Though involving vast numbers of accounts, it would not be a particularly innovative option from a technological viewpoint. For the euro area, it would basically mean increasing the number of current deposit accounts offered from around ten thousand to between 300 and 500 million. A CBDC of this nature would enable the central bank to register transfers between users, thereby providing protection against money laundering and other illicit uses (or those considered illicit by the rulers of the day), depending on the degree of privacy granted to users.

These are just two of the many ways to design a CBDC. We are currently scrutinising the various options to assess their potential impact – both positive and negative – on the financial system and on our ability to honour our mandate.

Disintermediation – economically inefficient and legally untenable

You may wonder why central banks have not chosen to provide retail access to central bank money, despite the technology for an account-based CBDC already being largely available. The main reason is that introducing a retail CBDC could have major consequences for the financial system.

If households were able to convert commercial bank deposits into a CBDC at a rate of 1 to 1, they may find it far more attractive to hold a risk-free CBDC rather than bank deposits. During a systemic banking crisis, this could trigger digital bank runs of unprecedented speed and scale, magnifying the effects of such a crisis.

Banks might manage to render their deposits more attractive than central bank ones. They could, for instance, provide additional services to those offered by central banks. Such services could include paying bills, or cross-selling financial insurance products. Otherwise – even in the absence of a crisis – a readily convertible CBDC could crowd out bank deposits, leading to the disintermediation of the banking sector. This could have far-reaching implications for the structure of the financial system and for the ability of central banks to perform their core tasks and ensure that their monetary policy is transmitted to the real economy.

If the central bank were to take retail deposits, it might also have to provide loans, with all the ensuing consequences. The central bank would need to launch customer-facing business lines. Deposit and lending facilities would also require the central bank to take on the burden of regulatory compliance in areas such as anti-money laundering, consumer protection and confidentiality.

Some argue that this may reinforce monetary sovereignty, as disintermediation would make the financial system safer and reduce the moral hazard of banks by diminishing their role in money creation.[5]

But disintermediation would be economically inefficient and legally untenable. The EU Treaty provides for the ECB to operate in an open market economy, essentially reflecting a policy choice in favour of decentralised market decisions on the optimal allocation of resources. Historical cases of economy-wide resource allocation by central banks are hardly models of efficiency or good service. Furthermore, a retail CBDC would create a disproportionate concentration of power in the central bank.

These potentially highly adverse effects on the financial system would appear to outweigh the benefits envisaged by the introduction of a retail CBDC.

What, then, could be done to mitigate the impact of a CBDC on the financial system?

One option could be to remunerate CBDC at below-market rates in order to create incentives for non-banks to rely more on market-based alternatives rather than on central bank deposits. The drawback would be that, in times of crisis, it may become necessary to apply highly negative rates, which could generate criticism from the public and substantially undermine public confidence in the central bank as well as in the basic values of saving which underlie our societies.

Another option is a tiered remuneration system.[6] In line with the functions of money, the first tier could serve as a means of payment. The central bank would have to refrain from setting a lower or a negative interest rate in order to keep a CBDC attractive to the public as a means of payment. While the second tier could serve as a store of value, the central banks could discourage people from using it as such by setting unattractive interest rates. However, such schemes should draw from the experience of multiple exchange rate regimes. And the repercussions of the intentional use of such schemes need to be subjected to an additional comprehensive investigation.

So we have plenty of questions on CBDC to discuss. I am nearing the end of my speech but look forward to exchanging views with you during our virtual Q&A session.

Conclusion

In monitoring the evolution and uses of technology, the ECB respects technological neutrality. We do not serve technology – technology serves us. We will only introduce a digital currency if we become firmly convinced that it is both necessary and proportionate to fulfil our tasks in ensuring the stability of our currency.

In the meantime, we take a keen interest in digital innovation and in the changing expectations of money users, and we are refining our thinking on CBDC – both within the ECB, the Eurosystem and in the international central banking community. CBDC design choices are not merely technical questions. They have policy and legal implications. This is why we are devoting so much attention to every detail.

If and when the time comes, we want to be ready – and we will be ready.

Article – Europe must emerge stronger from this crisis

In 1950, Europe was in crisis, still devastated physically and economically by the effects of World War II, and politically searching for a way to ensure that the horrors of the war could never be repeated. Against this dark backdrop, on 9 May, French Foreign Minister Robert Schuman outlined his vision for how Europe could achieve this objective, by creating common institutions to make war not just unthinkable but materially impossible. His words changed the course of history and laid the foundations on which his generation and future ones built the European Union we have today.

The 70th anniversary of the Schuman Declaration comes at another moment of crisis for Europe. Across our continent, more than 100,000 have died because of the coronavirus in the last months. Hundreds of millions have faced unprecedented restrictions in their daily lives to help contain the spread of the virus.

As leaders of the three main EU institutions, our thoughts today are first with all those who have lost loved ones. Our gratitude is to the essential workers who have continued to work throughout this crisis. Those on the frontline in our hospitals and care homes, fighting to save lives. But also the delivery drivers, shop assistants, police officers, all those working to ensure that daily life can continue.

We are also thankful for the spirit of solidarity and civic responsibility that European citizens have shown. The millions who have volunteered to help in whatever way they can during the crisis, be it shopping for an elderly neighbour, stitching face masks, or raising money to give to those in need. Europe is at its best when it shows warmth and solidarity.

Europe acted boldly to ensure that the single market could still function, allowing medical supplies to arrive where doctors and nurses needed them, ventilators to arrive where they could save lives, and food and essential goods to get to our shops where Europeans could find them on the shelves.

We took unprecedented decisions to ensure national governments had the fiscal capacity they needed to tackle the immediate crisis. We transformed the European Stability Mechanism into an instrument to fight Covid-19. We have made €100 billion available to keep Europeans in jobs, by supporting national short-time work systems. And the European Central Bank provided unprecedented support to ensure lending to people and businesses continued.

We still need to do much more. As our member states are tentatively and gradually lifting lockdowns and restrictions, the first priority must remain saving lives and protecting the most vulnerable in our societies. We must continue to do all we can to support research into a vaccine for the coronavirus. The success of the coronavirus global response pledging conference of 4 May, which has raised €7.4 billion and has brought under the same roof global health organisations to work together on vaccines, treatments and diagnostics, shows just how rapidly the world can rally behind a common cause. We need to sustain this mobilisation and keep the world united against coronavirus. Europe can play a decisive role here.

At the same time, all member states must have the fiscal space needed to deal with the ongoing medical emergency.

And we need to prepare for the recovery, After fearing for their lives, many Europeans now fear for their jobs. We must restart Europe’s economic engine. Let us remember the spirit of Robert Schuman and his peers – inventive, daring and pragmatic. They showed that getting out of moments of crisis required new political thinking and breaking from the past. We must do the same and recognise that we will need new ideas and tools to support our own recovery. We must recognise that the Europe that will come out of this crisis cannot and will not be the same as the one that entered it.

First, we must do more to improve the lives of the poorest and most vulnerable in our societies. Too many in Europe were struggling to make ends meet before this crisis even began. Now millions more face an uncertain future, having lost their jobs or businesses. Young people and women are particularly affected and need concrete and determined support. Europe must be bold and do all that it takes to protect lives and livelihoods, particularly in the areas most affected by the crisis.

Our Union must also be healthy and sustainable. One lesson to learn from this crisis is the importance of listening to scientific advice and taking action before it is too late. We cannot put off addressing climate change and must build our recovery on the European Green Deal.

And we must be closer to citizens, making our Union more transparent and more democratic. The Conference on the Future of Europe, which had been planned to launch today and was only delayed due to the pandemic, will be essential in developing these ideas.

We are at a time of temporary fragility and only a strong European Union can protect our common heritage and the economies of our member states.

Yesterday, we commemorated the 75th anniversary of the end of World War II. We must always remember the horrors and barbarism of war and the sacrifices made to end it. Today, we reflect on what happened next. Let us remember the 1950s generation who believed that a better Europe and better world could be built out of the ruins of war – and then went on to build it. If we learn those lessons, if we remain united in solidarity and behind our values, then Europe can again emerge from crisis stronger than before.

Parliament President David Sassoli, European Council President Charles Michel, European Commission President Ursula von der Leyen