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Uw brief (kenmerk)

Bijlagen
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Ecofinraad 27 en 28 april 2023

Geachte voorzitter,

Hierbij zend ik u de geannoteerde agenda van de Eurogroep en informele Ecofinraad van 27 en 28 april a.s. in Stockholm. Ik ben voornemens deel te nemen aan deze vergaderingen.

De *Presidency Issues Notes* die door het Zweedse voorzitterschap voor verschillende agendaonderwerpen van de informele Ecofinraad zijn opgesteld zijn als bijlage bij de geannoteerde agenda gevoegd.

Het is mogelijk dat nog punten worden toegevoegd aan de agenda of dat bepaalde onderwerpen worden afgevoerd of worden uitgesteld tot de volgende vergadering.

Hoogachtend,

de minister van Financiën,

Sigrid A.M. Kaag

Geannoteerde agenda informele Eurogroep en Ecofinraad 27 en 28 april 2023

Eurogroep in inclusieve samenstelling

Bankenunie en recente onrust financiële sector

Document: n.v.t.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting:

De ministers zullen in de Eurogroep naar verwachting stilstaan bij de onrust en onzekerheid in de financiële sector door de ontwikkelingen in de Amerikaanse bankensector en de overname van het door problemen getroffen Credit Suisse (CS) door UBS. De situatie bij deze banken lijkt wezenlijk anders dan bij Nederlandse en ook Europese banken, welke gemiddeld goed gekapitaliseerd zijn en voldoen aan strenge prudentiële eisen. Ook is er in de EU een robuust crisisraamwerk voor de omgang met banken in problemen. Grote banken met kritieke functies gaan daarbij in resolutie, wat betekent dat een bank onder leiding van een resolutieautoriteit gecontroleerd wordt afgewikkeld en kritieke functies behouden blijven. Desondanks is het van belang dat we waakzaam blijven voor risico's en kwetsbaarheden in het systeem

Tijdens de Eurogroep zal ook worden gesproken over de toekomst van de Bankenunie. In juni 2022 heeft de Eurogroep de Europese Commissie uitgenodigd wetgevende voorstellen te doen voor een herziening van het crisisraamwerk voor falende banken (*crisis management and deposit insurance*, CMDI)¹, om invulling te geven aan de verdere ontwikkeling van de Bankenunie. Dit voorstel wordt naar verwachting op 18 april gepubliceerd en tijdens de Eurogroep gepresenteerd en besproken.

Het Commissievoorstel zal naar verwachting in lijn zijn met de elementen die zijn benoemd in de verklaring van de Eurogroep in juni 2022, waaronder een verduidelijkte en geharmoniseerde algemeen belangentest (*public interest assessment*, PIA) om te bepalen of een bank een publiek belang dient en dus in resolutie dient te worden afgewikkeld, en een bredere toepassing van de resolutie-instrumenten, zowel door de gemeenschappelijke afwikkelingsraad (*Single Resolution Board*; SRB) als de nationale resolutie-autoriteiten. Als gevolg hiervan zullen meer kleine en middelgrote banken via resolutie afgewikkeld kunnen worden (in plaats van in faillissement). De afwikkeling van een bank wordt in resolutie in de eerste plaats gefinancierd door bail-in van de eigen verliesabsorptiebuffers (*minimum required eligible liabilities and own funds*, MREL) zoals het eigen vermogen en uitgegeven obligaties, en waar nodig ondersteund door vangnetten die door de sector worden gefinancierd waaronder het gemeenschappelijk afwikkelingsfonds (Single Resolution Fund, SRF). Daarnaast voorziet het voorstel naar verwachting in verdere harmonisatie en uitbreiding van het gebruik van nationale depositogarantiefondsen, anders dan voor een uitbetaling aan gedekte deposanten (zowel in faillissement als in resolutie). Een geharmoniseerde 'laagstekostentest' (*least cost test*, LCT) zou moeten leiden tot consistente en kostenefficiënte inzet van geld uit het depositogarantiefonds (DGF) om een falende bank af te wikkelen. Verder voorziet het voorstel vermoedelijk ook in harmonisatie van specifieke elementen van de nationale insolventiewetgeving voor banken, om consistentie met het Europese resolutieraamwerk voor banken te borgen.

Na publicatie van het Commissievoorstel en de eerste gedachtewisseling in de Eurogroep zullen de lidstaten het voorstel in de Raad bespreken. Ook het Europees Parlement zal zich over het voorstel buigen. Door de uiteenlopende posities van lidstaten zullen de onderhandelingen over dit voorstel vermoedelijk niet eenvoudig worden. Nederland zal zich in dit kader constructief blijven opstellen en tegelijkertijd vasthouden aan de punten die voor Nederland van belang zijn, zoals het behoud

¹ Eurogroup statement on the future of the Banking Union of 16 June 2022, <https://www.consilium.europa.eu/nl/press/press-releases/2022/06/16/eurogroup-statement-on-the-future-of-the-banking-union-of-16-june-2022/>

van bail-in van aandeel- en obligatiehouders als eerste verdedigingslinie, het beschermen van belastinggeld en het voorkomen van significant hogere kosten voor het depositogarantiestelsel. De formele appreciatie van het voorstel en inzet van Nederland zal, conform de gebruikelijke procedure en middels een BNC-fiche, naar verwachting eind mei volgen.

Terugkoppeling Eurotop

Document: n.v.t.

Aard bespreking: terugkoppeling

Besluitvormingsprocedure: n.v.t.

Toelichting:

De voorzitter van de Eurogroep zal een terugkoppeling geven van de Eurotop. De Eurotop vond plaats op 24 maart jl. en marge van de Europese Raad. De regeringsleiders bespraken de economische en financiële situatie en hebben een verklaring aangenomen.² In de verklaring bevestigen de regeringsleiders het belang van nauwe coördinatie op economisch beleid en nodigen ze de Eurogroep uit om de economische ontwikkelingen te blijven monitoren. Daarnaast benoemen de regeringsleiders het raamwerk van *economic governance* als belangrijke pijler van de Economische en Monetaire Unie (EMU), met het oog op een stabiele euro en een veerkrachtige economie van de eurozone. Ook wordt in de verklaring stilgestaan bij het waarborgen van een sterke Europese financiële architectuur. Dit kan bijdragen aan het aantrekken van duurzame investeringen, innovatie en het creëren van banen en een versnelling van de 'twin transitions': de transitie naar groen en digitaal. De regeringsleiders roepen op tot een gezamenlijke inspanning om de kapitaalmarktunie verder te brengen, met betrokkenheid van beleidsmakers en marktpartijen binnen de EU. Daarnaast benadrukken de regeringsleiders de rol van de Bankenuie bij het versterken van de weerbaarheid van het bankensysteem. Ook hier wordt opgeroepen om verdere inspanningen om de Bankenuie te voltooiën. Naar verwachting zal de voorzitter van de Eurogroep aangeven hoe hij bovenstaande punten de komende maanden in de Eurogroep wil adresseren. Nederland kan de terugkoppeling aanhoren en het belang van voortgang op Kapitaalmarktunie en Bankenuie onderstrepen.

Terugkoppeling internationale vergaderingen: G20-bijeenkomst, IMF-voorjaarsvergadering en voorbereiding voor de G7-bijeenkomst in mei

Document: n.v.t.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting:

De ministers zullen van de voorzitter en de Europese Commissie een terugkoppeling krijgen van de IMF-voorjaarsvergadering en G20-bijeenkomst voor ministers van Financiën en centrale bankgouverneurs (FMCBG) die op 12, 13 en 14 april in Washington D.C. plaatsvonden. Ook zal worden ingegaan op de aanstaande G7-bijeenkomst voor ministers van Financiën en centrale bankgouverneurs in mei.

Tijdens de IMF-voorjaarsvergadering en G20-vergadering waren de Russische oorlog in Oekraïne en de gevolgen daarvan voor de mondiale financieel-economische situatie centrale onderwerpen van discussie. Daarbij ging het over de juiste balans tussen het bestrijden van inflatie en het tegelijkertijd stimuleren van duurzame, inclusieve groei. Daarnaast is gesproken over het belang van multilaterale samenwerking. Tot slot is ook gesproken over de externe financieringsbehoeftes en de schuldhoudbaarheid van kwetsbare lage-inkomenslanden en opkomende economieën. Zo vond op 12 april de tweede ministeriële bijeenkomst van de *Global Sovereign Debt Roundtable* plaats. Ook werd op 14 april een bijeenkomst georganiseerd van de *Coalition of Finance Ministers for Climate Action*, waarvan Nederland covoorzitter is.

Op 11, 12 en 13 mei komen de ministers van Financiën en centrale bankgouverneurs van de G7 bijeen in Niigata, Japan. Onder het Japans G7-voorzitterschap focussen de ministers van Financiën en centrale bankgouverneurs zich op steun aan Oekraïne, de aanpak van mondiale economische uitdagingen (zoals inflatie en de schuldenproblematiek), de versterking van economische veerkracht, en de bevordering van brede welvaart. In dat kader zal o.a. gesproken worden over de financiering van de klimaattransitie en de hervorming van multilaterale ontwikkelingsbanken.

² <https://data.consilium.europa.eu/doc/document/ST-502-2023-INIT/en/pdf>

Nederland kan de terugkoppeling aanhoren.

Ecofinraad

Werklunch: uitwisselen beleidservaringen hoe om te gaan met consequenties van inflatie voor inkomenspositie huishoudens en bedrijven

Document: n.v.t.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting:

De ministers zullen tijdens een werklunch beleidservaringen uitwisselen over hoe om te gaan met consequenties van inflatie voor de inkomenspositie van huishoudens en bedrijven. Nederland kan de afwegingen bij het Nederlandse steunpakket en mogelijke lessen daarvan richting de toekomst toelichten. Net als Nederland hebben ook veel andere EU-landen hebben in meer of mindere mate steunmaatregelen geïmplementeerd voor huishoudens en/of bedrijven om de directe impact van hogere energieprijzen te dempen, zowel via inkomenssteun als maatregelen gericht op energieprijzen.³ Zo hebben bijvoorbeeld ook Duitsland, Frankrijk en Spanje een prijsplafond in enige vorm ingevoerd.

Nederland heeft verschillende steunmaatregelen genomen om de impact van de hoge inflatie op de koopkracht te verzachten. Een deel van de maatregelen biedt gerichte inkomenssteun voor kwetsbare huishoudens. Zo is de zorgtoeslag eenmalig verhoogd, is de huurtoeslag verhoogd en is het kindgebonden budget verhoogd. Ook is het wettelijk minimumloon verhoogd met tien procent, waardoor ook de hieraan gekoppelde uitkeringen zoals de AOW gestegen zijn. Huishoudens met lage inkomens profiteren daarnaast in 2022 en 2023 van een energietoeslag van 1.300 euro. Om de energieprijsschok breder te dempen is er daarnaast tijdelijk een prijsplafond doorgevoerd voor alle Nederlandse huishoudens. Met deze maatregel garandeert de Nederlandse overheid tot mediaan verbruik een maximumprijs voor gas en elektriciteit in 2023. Voor gerichte steun aan bedrijven heeft de overheid de Tegemoetkoming Energiekosten energie-intensief mkb (TEK) geïntroduceerd.

Het kabinet heeft geprobeerd om maatregelen zoveel mogelijk te richten op de meest kwetsbare groepen. Nederland heeft hiervoor onder meer gebruik gemaakt van armoede-indicatoren van het Centraal Planbureau (CPB). Vanwege de wenselijkheid om huishoudens snel zekerheid te bieden wegens de extreme prijsstijging, is daarnaast ook gekozen voor het prijsplafond. Een sociaal tarief voor lage inkomens is overwogen als alternatief. Dat zou een meer gerichte maatregel zijn geweest, maar was uitvoeringstechnisch niet tijdig te realiseren. Nederland heeft in de vormgeving wel de prijsprikkels zoveel mogelijk in stand gehouden om huishoudens en bedrijven te stimuleren om energie te besparen en te investeren in groene alternatieven. Zo is de vastgestelde plafondprijs aanzienlijk hoger dan de gemiddelde prijs de afgelopen jaren, geldt het prijsplafond tot het energieverbruik van een mediaan huishouden en ondervinden ook bedrijven onder de TEK een duidelijke prikkel tot energiebesparing. Tot slot maakt Nederland zoveel mogelijk gebruik van steunmaatregelen die tijdelijk van aard zijn om de budgettaire impact hiervan te beperken.

De steunmaatregelen hebben de koopkrachtdaling als gevolg van de hogere inflatie gedempt, waardoor de vraagterugval op macroniveau beperkt bleef. Zo liet de Nederlandse economie in het 4^e kwartaal van 2022 nog groei zien. Daarbij is de prikkel om energie te besparen grotendeels behouden. Ondanks de steunmaatregelen is er in 2022 namelijk 25% minder aardgas verbruikt dan in het jaar ervoor. Dit komt deels door de relatief warmere winter in 2022, maar ook gecorrigeerd voor de hogere temperaturen lag het verbruik 15% lager dan in 2021. Ondanks de invoering van het prijsplafond lag het gasverbruik ook in de eerste 3 maanden van 2023 duidelijk lager dan voorgaande jaren. Wel voorziet het CPB dat het begrotingstekort in 2023, mede door de

³ Zie onder meer deze recente analyses van het IMF en Bruegel: IMF (2022), Targeted, implementable, and practical energy relief measures for households in Europe, IMF WP WP/22/262; Bruegel (2023), National fiscal policy responses to the energy crisis, dataset gepubliceerd op 24 maart 2023.

steunmaatregelen, hoger uitkomt. Een deel van de steunmaatregelen is gedekt in de begroting voor 2023. Over de invulling van de resterende dekkingsopgave wordt nog besloten.

Daarnaast leidt steunbeleid in reactie op hoge energieprijzen tot het risico dat inflatie zich in de economie nestelt. Het risico op aanhoudend hogere inflatie is hoger in de huidige krappe arbeidsmarkt. Het kabinet verkent momenteel mogelijke alternatieve maatregelen om kwetsbare huishoudens volgend jaar te steunen. Meer gerichte steun beperkt de druk op inflatie.

Nederland vindt het van belang dat lidstaten maatregelen nemen om de socio-economische impact van hogere energieprijzen te mitigeren en de meest kwetsbare groepen te beschermen. Daarbij blijft het cruciaal dat deze maatregelen tijdelijk en gericht zijn, en niet leiden tot een verdere verhoging van de inflatie. Aandacht voor de houdbaarheid van de overheidsfinanciën blijft daarbij van belang.

Werk sessie I: De financiering van Europa's toekomstige groei

Document: het Zweedse voorzitterschap zal naar verwachting voorafgaand aan de vergadering een 'issues note' delen.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting: De ministers zullen tijdens deze werksessie van gedachte wisselen over de financiering van Europese bedrijven, in het bijzonder 'bedrijven die de banen en economische groei van de toekomst zullen bieden' zoals *start-* en *scale-ups* en *clean tech*. Aan bod komen naar verwachting verschillende uitdagingen, zoals de financiering van innovatie, waarvoor vaak meer risicodragend kapitaal, zoals *venture capital*, nodig is. In de EU blijft de ontwikkeling en beschikbaarheid van dergelijke marktfinanciering achter bij andere landen (zoals de Verenigde Staten). Europese bedrijven, met name het midden- en kleinbedrijf, zijn sterk afhankelijk van bancaire leningen voor hun externe financieringsbehoefte.

Dit onderwerp is door het Zweeds voorzitterschap geagendeerd gelet op haar prioriteit t.a.v. het concurrentievermogen van de Europese economie. Onder andere in reactie op de *Inflation Reduction Act* in de VS, vindt in de EU het gesprek plaats over de beschikbaarheid van financiering voor verduurzaming en innovatie. Specifiek wordt daarbij door veel lidstaten, evenals in conclusies van de Europese Raad, het belang van verdere versterking van de kapitaalmarktunie benoemd. Door verdere convergentie van regelgeving en toezicht kan de fragmentatie van EU-kapitaalmarkten worden verminderd, waarmee bedrijven die financiering zoeken en beleggers die willen investeren, betere toegang, goede bescherming en meer financieringsopties kunnen worden geboden. Tegelijkertijd wordt er gesproken over bestaande publieke instrumenten en middelen om privaat kapitaal aan te trekken. Voorbeelden van instrumenten die op een dergelijke manier zijn ingericht, zijn het Europese Investeringsfonds en het *European Tech Champions Initiative* (ETCI). Hoewel er binnen de EU relatief veel publieke middelen beschikbaar zijn ten behoeve van startende ondernemingen, bijvoorbeeld ook vanuit het Innovatiefonds, InvestEU en de Europese Investeringsbank, is het instrumentarium soms nog complex en gefragmenteerd.

Het kabinet is van mening dat verdere versterking van de kapitaalmarktunie cruciaal is voor het wegnemen van barrières tot het vrije verkeer van kapitaal in de EU. Tijdens het plenaire debat over de toekomst van de euro (van 9 maart jl.) heb ik aan het lid Slootweg toegezegd hier aandacht voor te vragen. Deze informele Ecofinraad is daarvoor een uitstekende gelegenheid.

Beter ontwikkelde kapitaalmarkten bieden bedrijven meer marktfinancieringsopties voor investeringen in verduurzaming en groei en geven consumenten mogelijkheden om hun financiële doelen te behalen door voor de lange termijn te beleggen. Met meer geharmoniseerde regelgeving en toezicht worden EU-kapitaalmarkten bovendien aantrekkelijker voor investeerders van buiten de EU. Voortvarende uitwerking van het tweede kapitaalmarktunieactieplan uit 2020, waarover momenteel onderhandelingen in de Raad en met het Europees Parlement lopen, is daarom van groot belang. Mede ter uitwerking van de motie Van der Lee & Van Weyenberg kan Nederland tijdens de Raadsbespreking verkennen met welke gelijkgestemde lidstaten en op welke

deelgebieden samen opgetrokken kan worden om een nieuwe impuls aan de kapitaalmarktunie te geven.⁴ Wat betreft Europese publieke financiering vindt het kabinet het van belang om te kijken naar de verbetering van de inzet van bestaande middelen en instrumenten, zonder af te doen aan de effectiviteit van de bestaande fondsen die reeds een belangrijke bijdrage leveren aan het Nederlandse en Europese concurrentievermogen.

Werksessie II: Een lange termijn perspectief op het opvangen van economische schokken en houdbare overheidsfinanciën

Document: het Zweedse voorzitterschap zal naar verwachting voorafgaand aan de vergadering een 'issues note' delen.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting:

De minister zullen van gedachte wisselen over de rol van begrotingsbeleid in het kader van het opvangen van economische schokken (stabilisatie), vooral vanuit een langetermijnperspectief. Daarbij zal worden ingegaan op de vraag in hoeverre begrotingsbeleid geschikt is voor stabilisatie in verschillende situaties, de rol die automatische stabilisatoren daarbij spelen en hoe verschillen in begrotingsruimte tussen lidstaten de ruimte voor discretionair beleid beïnvloeden.

Het kabinet is van mening dat de insteek voor Europees beleid om economische schokken op te vangen gebaseerd moet zijn op een prudent begrotingsbeleid van de lidstaten, gericht op geleidelijke afbouw van hoge schuldenlasten, in combinatie met groei-verhogende hervormingen en noodzakelijke investeringen door de lidstaten. Daar kan een goed functionerend en effectief Stabiliteits- en Groeipact (SGP) een bijdrage aan leveren. Nationale overheden blijven de eerstverantwoordelijke voor het opvangen van economische schokken en het is daarom van belang dat lidstaten inzetten op het geleidelijk opbouwen van de daarvoor noodzakelijke buffers. Voldoende buffers zijn belangrijk omdat ze lidstaten in staat stellen om automatische stabilisatoren te laten werken en waar nodig gebruikt kunnen worden voor anticyclisch beleid. Naast het begrotingsbeleid kan ook voortgang op de kapitaalmarktunie en het afmaken van de bankenunie bijdragen aan grotere stabiliteit. Zo speelt in de VS de kapitaalmarkt een grotere rol in het opvangen van economische schokken tussen regio's dan het (federale) budgettaire beleid.

Mogelijk wordt in het kader van deze discussie ook het idee van een permanente stabilisatiefunctie binnen de EU opgebracht. Zoals ook aangegeven in diverse brieven⁵ aan de Tweede Kamer is het kabinet geen voorstander van een permanente stabilisatiefunctie. Daarbij bestaat het risico dat de prikkel tot verstandig economisch beleid en begrotingsdiscipline door de beschikbaarheid van een dergelijk instrument minder wordt (*moral hazard*). Er zijn in de EU ook al verschillende voorzieningen voor financiële bijstand in noodgevallen en met gepaste voorwaarden, zoals financiële bijstand op basis van artikel 122 van het Verdrag betreffende de werking van de Europese Unie (VWEU), het instrument voor betalingsbalanssteun⁶ en voor de eurozone het Europees Stabiliteitsmechanisme (ESM).

Werksessie III wederopbouw en coördinatie steun Oekraïne

Document: het Zweedse voorzitterschap zal naar verwachting voorafgaand aan de vergadering een 'issues note' delen.

Aard bespreking: gedachtewisseling

Besluitvormingsprocedure: n.v.t.

Toelichting:

⁴ Kamerstukken II 2022/23, 21501-07, nr. 1928

⁵ Onder meer de brief van 6 september 2022, Kabinetsvisie op de toekomst van de Eurozone (Kamerstukken 2022-2023, 21501-20, nr. 1825), de brief van 4 maart 2022 (Kamerstuk 2022-2023, 21501-07, nr. 1815) en de brief van 14 maart jl. in reactie op de motie Omtzigt-Stoffer (geen stuknummer)

⁶ https://economy-finance.ec.europa.eu/eu-financial-assistance/non-euro-area-countries/balance-payments-bop-assistance-facility_en

De ministers zullen van gedachte wisselen over de coördinatie van steun aan Oekraïne en de wederopbouwinzet. De Russische invasie heeft aanzienlijke financiële noden gecreëerd. Zo zijn de Oekraïense overheidsuitgaven gestegen, zijn belastinginkomsten gedaald en heeft het land geen toegang meer tot internationale kapitaalmarkten. Het resulterend financieringstekort – dat door het IMF op USD 114,4 miljard wordt geraamd over de periode van 2023 tot 2027 – moet door externe partijen worden gedekt. De kloof voor dit jaar is reeds gedicht, onder andere met de macro-financiële bijstand van de EU (met een omvang van EUR 18 miljard), het recent geaccordeerde IMF-programma en Amerikaanse steunpakketten.

In aanvulling op dit financieringstekort is er sprake van aanzienlijke herstel- en wederopbouwnoden. Russische beschietingen hebben o.a. infrastructuur, huisvesting en fabrieken vernietigd. In maart jl. is een update van de *'Rapid Damage and Needs Assessment'* verschenen. Dit rapport – dat door de Wereldbank in samenwerking met de Oekraïense autoriteiten, Europese Commissie en Verenigde Naties is opgesteld – raamt de totale wederopbouwnoden op minimaal USD 411 miljard over de komende tien jaar. Voor dit jaar zijn USD 14 miljard aan kritieke herstelnoden geïdentificeerd.

Nederland zal haar 'fair share' bijdragen aan het adresseren van deze noden, en verwacht dat andere landen dat ook zullen doen. Het kabinet heeft EUR 2,5 miljard gereserveerd voor militaire en niet-militaire steun aan Oekraïne in 2023. Het eerste niet-militaire steunpakket, met een omvang van EUR 274 miljoen, is op 3 april jl. bekendgemaakt. Een groot deel van deze steunmiddelen wordt via de internationale financiële instellingen, zoals de Wereldbank en de Europese Bank voor Wederopbouw en Ontwikkeling (EBRD), verstrekt. Nederland vertegenwoordigt Oekraïne in deze instellingen, die beschouwd worden als een efficiënt kanaal voor steunverlening.

Gelet op de omvang van deze financiële noden pleit Nederland al maanden voor adequate steuncoördinatie. Nederland verwelkomt daarom het *'Multi Agency Donor Coordination Platform'* dat begin dit jaar door de G7 is opgericht. Nederland hecht waarde aan een flexibel en inclusief coördinatieproces en vindt het belangrijk dat de wensen van de Oekraïners met betrekking tot de wederopbouw leidend zijn.

Het kabinet zal zich ten aanzien van het EU-perspectief van Oekraïne er hard voor maken dat er niet vooruitgelopen wordt op de reguliere voortgangsrapportage als onderdeel van het uitbreidingspakket 2023. De Commissie zal op basis van dit formele voortgangsrapport beoordelen in welke mate Oekraïne voldoet aan de prioriteiten uit de Opinie van juni 2022 over de EU lidmaatschapsaanvraag⁷. Dit rapport wordt in oktober 2023 verwacht.

⁷ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-06/Ukraine%20Opinion%20and%20Annex.pdf>

Presidency Issues Note for Ministers' Working Lunch: ADDRESSING RISING COSTS FOR HOUSEHOLDS AND BUSINESSES – NATIONAL EXPERIENCES AND CONSIDERATIONS

Introduction

Although the EU economy entered 2023 on a healthier than expected footing, inflation remains elevated and there is still high uncertainty regarding its persistence. To counter high inflation, central banks have raised policy rates at a historically rapid pace. The strain inflation has put on vulnerable households and businesses has led to significant challenges for national policymaking as governments have sought to provide financial aid without contributing to inflationary pressures. In addressing these challenges and partly conflicting policy goals, discussions both in the Eurogroup and the Ecofin over the last year have proven valuable to share experiences and lessons learned between Member States. As the economic conditions and challenges develop, a continuous dialogue between Member States is warranted in order to ensure effective and well targeted policy responses.

Inflation development in the European Union in the past two years

Inflation in the EU started to increase considerably from the second half of 2021 and reached its peak in October 2022. While all Member States have experienced high inflation during 2022, the magnitude of the price changes varied significantly. Higher input prices, such as high energy costs, coupled with supply chain disruptions and a strong domestic demand in the wake of the end of the COVID-19 pandemic led to a rapid rise in the prices of goods and services during 2022. The price of food and non-alcoholic beverages has increased by almost 12 percent in 2022 (as measured by HICP), which is several times higher than the average annual price increase of 2.3 percent between 2001 and 2021. Energy prices have however decreased since November 2022, and this has brought lower overall HICP-inflation in the EU the past few months. Nevertheless, core inflation, which has been more persistent than anticipated, has not yet come down.

Challenges stemming from the current inflationary situation

The rapid increase in inflation has affected the EU economy in several ways. In the short run, already vulnerable households now find it more difficult to afford their basic cost of living and many businesses have experienced difficulties carrying out their core operations. If high inflation were to become entrenched, there is a risk for long-term negative effects.

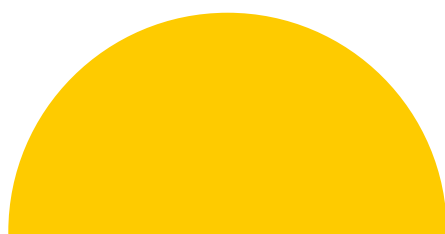
The effects on households and businesses are felt both through higher energy and food prices and higher interest rates. For vulnerable households with the smallest margins, this creates a particularly difficult situation. The urgent, short-term challenge is to protect this group through targeted fiscal measures whilst simultaneously not putting upward pressure on inflation. If not properly calibrated, there is a risk that measures intended to be a relief to vulnerable groups and sectors may distort price signals and delay necessary structural adjustment. Moreover, a lack of targeting brings substantial deadweight losses and overall fiscal costs, possibly even complicating the funding of future-oriented expenditure.

Apart from budgetary support to households and businesses, there are other important policy options. Rapid and potentially unwarranted price rises make taking action against market distortions and inefficient competition a priority. A high energy intensity in the economy amplifies inflation, strengthening the case to improve energy-efficiency. Wage negotiators face a difficult trade-off, when having to respond to demands for alleviating the fall in real wages while trying to avoid contributing to a wage-price spiral.

In addressing these challenges, it is important to build on our shared experiences. Many measures have been introduced in the Member States over the past year. It is valuable to discuss what the outcome of these has been as well as what considerations should be taken into account in designing effective and targeted measures suited for the economic reality we face.

Questions for discussion:

- How do you view the balance between supporting households and businesses and the risk of putting upward pressure on inflation, as well as the risk of disrupting market mechanisms?
- What measures beyond budgetary support to households and businesses can be taken to tackle the challenges posed by high inflation? Do you have national experiences and examples to share?
- How can public understanding of the fiscal trade-offs best be ensured?





FINANCING INNOVATION: EARLY STAGE INVESTMENT IN THE EU

ANALYSIS OF THE SIZE, DEPTH & GROWTH POTENTIAL OF INVESTMENT IN HIGH POTENTIAL COMPANIES ACROSS EUROPE

April 2023

By William Wright and Christopher Breen

> Innovative growth companies are a vital part of rebuilding a more resilient, dynamic, and sustainable economy in the EU. This report highlights the challenges faced in funding this important sector, analyses the rapid growth in early stage investment in the EU over the past five years, and outlines an ambitious but achievable growth opportunity that could unlock nearly €25bn a year in additional investment to support nearly 5,000 companies in reaching their potential.

Financing innovation: early stage investment in the EU

In the wake of the Covid crisis, the Russian invasion of Ukraine, and the recent turmoil in banking and financial markets, the EU needs all the help it can get to build a more resilient, more dynamic, and more sustainable economy. In particular, the EU needs to develop more financing of innovation at scale - an area where the EU has traditionally lagged behind other developed economies - to help support the sort of companies the EU needs to drive investment in jobs, growth, productivity, and prosperity.

This short paper was prepared for the Informal Ecofin meeting in Stockholm in April 2023 hosted by the Swedish Presidency of the Council of the EU. It frames early stage investment in the EU in the context of the state of wider capital markets, and compares early stage investment in the EU with comparable markets like the US, UK, and Canada. It highlights the welcome and rapid growth in activity over the past five years; analyses the wide range in the level of activity in different member states; and provides a directional indication of the potential growth opportunity at an EU and country level in concrete terms. It also presents some questions and suggestions for consideration at a member state and EU level as to how to achieve this growth.

Here is a summary of the key points from this paper:

- 1. The wider context:** capital markets in the EU are under-developed and fragmented but they are heading in the right direction and have made steady progress since the launch of capital markets union. Activity has grown in absolute terms and relative to GDP in virtually every sector, and EU capital markets are deeper than ever before. But there is a wide range in development across the EU, and the EU's share of global activity has halved in the past 15 years.
- 2. Financing innovation:** the gap between early stage investment in the EU and other developed economies is stark. Over the past five years activity in the US has been more than six times larger than in the EU (€845bn compared with €131bn). The market is highly concentrated (with Germany, France, and Sweden accounting for 70% of activity) and investment is not evenly distributed across the EU. This suggests that many high potential companies in some markets may not have access to the capital they need.
- 3. Rapid growth:** the good news about early stage investment in the EU is that it is growing rapidly. Over the past five years activity has increased fivefold, and after explosive growth in 2021 investment held up well in 2022 despite the wider market downturn. Last year, activity in the US was just four times larger than the EU, compared with 12 times larger as recently as 2018.
- 4. Growth opportunity:** the wide range in development between member states and rapid recent growth suggests there is huge growth potential in early stage investment in the EU. Using a simple analysis to benchmark EU member states with each other, we estimate that early stage investment in the EU could realistically grow by nearly two-thirds. This would unlock an additional €24bn in investment in an extra 4,800 high potential companies across the EU every year.
- 5. Seizing the opportunity:** there is no magic wand that the EU or individual member states can wave to achieve this growth potential, and early stage investment may struggle to adapt to rising interest rates. Enabling this growth will require a combination 'top down' initiatives at an EU-level to reduce barriers and 'bottom up' measures at a national level to drive capacity. Ultimately, innovative companies will thrive in markets with well-developed ecosystems that incentivise, attract, and retain the best talent.

Note: we have used data on early stage investment from Preqin as the basis of this paper. For the purposes of this analysis we included the following categories as early stage investment: angel, seed, series A, later stage, venture debt, growth capital, and pre-IPO funding. Any errors are entirely our own.

EU CAPITAL MARKETS AT A GLANCE

Fig. I The growth and depth of EU capital markets

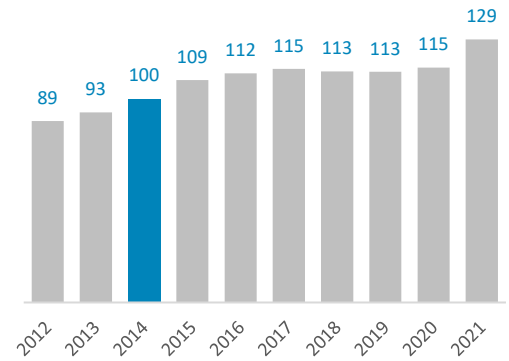
i) Heading in the right direction

Change in value and depth relative to GDP of EU capital markets
Three years to 2021 vs three years to 2014

Change since 2014:		
Sector	Value	Depth
Venture capital investment	● 305%	●
Private equity investment	● 130%	●
IPOs	● 66%	●
Pensions assets	● 64%	●
Assets under management	● 62%	●
Stock market	● 57%	●
Corporate bond market	● 46%	●
Corporate bond issues	● 39%	●
High-yield bond issues	● 27%	●
Insurance assets	● 27%	●
Bank lending to companies	● 7%	●
Small IPOs (<\$100m)	● -11%	●

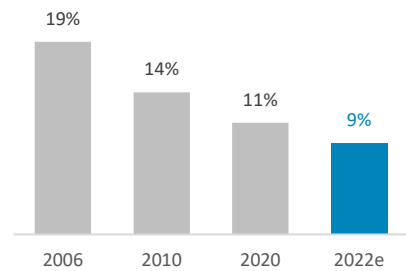
ii) Going up...

The depth of EU capital markets across 24 different sectors of activity since 2012 (rebased to EU average = 100 in 2014)



iii) Going down...

EU share of global capital markets activity 2006 to 2022e



Source: New Financial analysis of a range of public and private data sources

Slow but steady progress

Capital markets in the EU can be a depressing topic. They are [small, under-developed, and fragmented](#), and they are not yet in a position to help address key challenges such as financing the transition to net zero, providing a fully diverse source of funding for EU companies, or supporting an ageing population. Progress on capital markets union has been slow. The good news is that they are heading in the right direction and making steady if unspectacular progress on most measures. Fig. I.i shows the growth in activity in the EU in a selection of sectors in the three years to 2021 compared with the three years to 2014, the year CMU was first announced. In virtually every sector the value of activity has increased in absolute terms and relative to GDP. The strongest growth has come in venture capital investment, which has more than quadrupled.

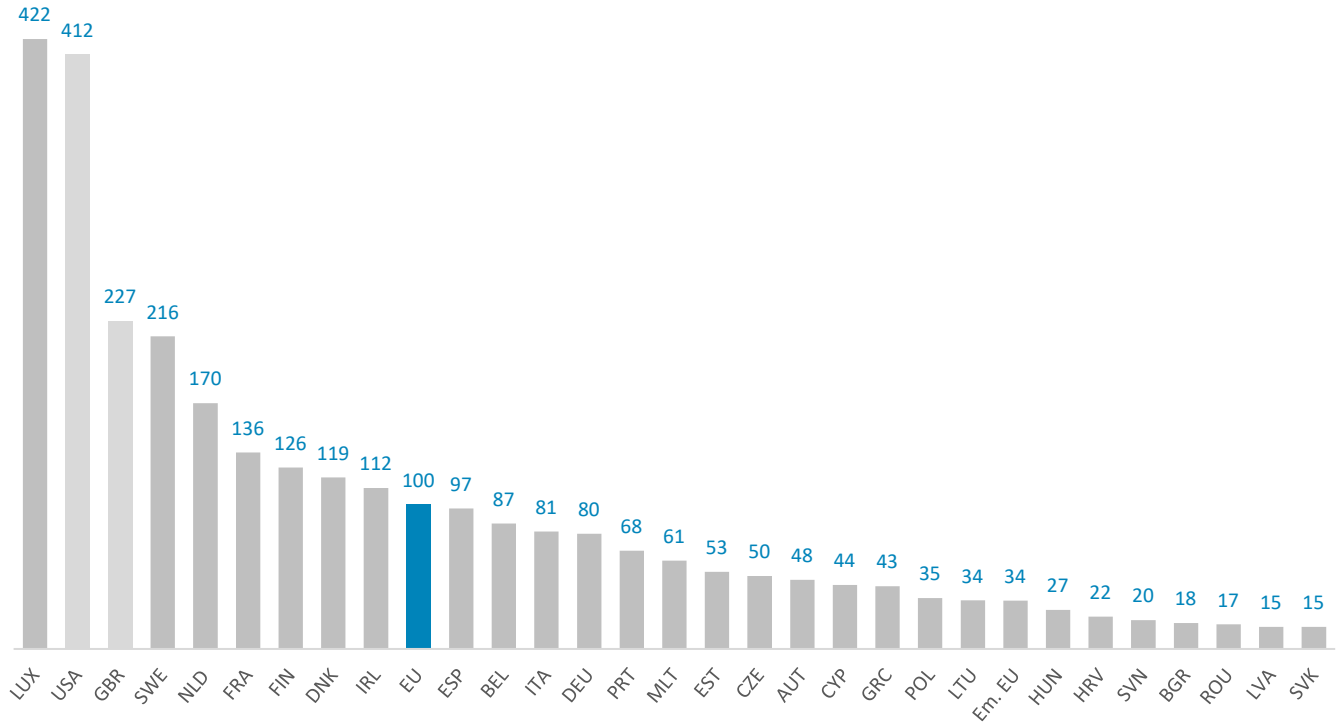
This steady growth is reflected in the increase in the overall depth of capital markets across the EU. Fig. I.ii shows that on average across 24 different sectors of activity, capital markets in the EU were nearly a third larger relative to the GDP in the three year to 2021 than in the three years to 2014, and have recovered strongly from the fallout from the euro-crisis. When we publish the updated index for 2022 later this year, we expect it to fall back to around 120 given the market slowdown last year. While this growth in EU capital markets is welcome, it is not something that can be attributed to structural reform from the CMU project. However, it provides good momentum for future growth on the back of CMU.

The bad news is that activity in the EU is growing at a slower rate than in the US and faster growing markets in Asia. According to our preliminary estimate for 2022, the EU's share of global capital markets activity has more than halved since 2006 from an average of 19% to just 9% last year (see Fig. I.iii). Reversing this relative decline will require a renewed, co-ordinated, and more urgent effort across the EU.

RANGE IN DEPTH OF EU CAPITAL MARKETS

Fig.2 What is the range in depth of capital markets in the EU?

This chart shows the overall average depth of capital markets across 27 different sectors of activity over the three years to 2021. Note: rebased to EU average = 100



Source: New Financial

A wide range

One of the biggest challenges in developing bigger and better capital markets in the EU is the wide range in the level of development between individual member states. The range in depth of capital markets across the EU is far greater than the difference in depth between the EU and the US, or between the EU and the UK. Fig.2 shows the wide range in the depth of capital markets across 27 sectors of activity in each country in the three years to 2021 with every member state rebased to 100 as the EU average. This wide range highlights the potential benefits of CMU in reducing barriers through 'top down' measures to improve harmonisation, but also underlines how individual member states can build capacity in capital markets through their own 'bottom up' measures.

Capital markets in the US (on 412) are nearly twice the size relative to GDP than in the UK (on 227), which in turn are more than twice as deep as the EU (100). Luxembourg has the deepest capital markets in the EU (422), mainly because of its role as a regional hub for investment funds and international bond issuance, but Luxembourg's capital markets are very small (around 2% of overall EU activity). After a bumper year in equity markets activity in 2021, Sweden's capital markets (216) are now almost as deep as in the UK.

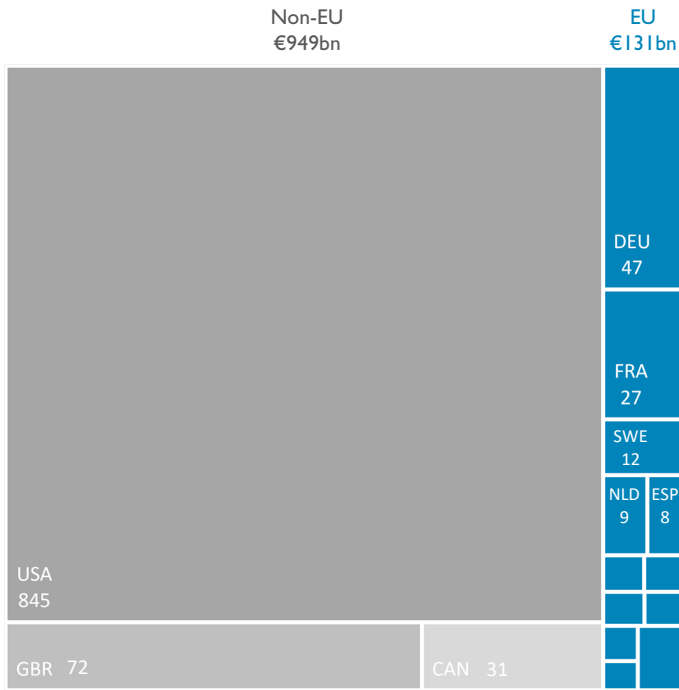
There are three clear groups of countries in terms of the depth of their capital markets. The first group is made up of wealthier countries in the north west of the EU such as Sweden, the Netherlands, and France. These countries' capital markets are significantly more developed than the EU average and give an idea of the potential of CMU. The countries in the second group have relatively developed capital markets but are less developed than the EU average, including three out of the four biggest economies in the EU - Germany, Italy, and Spain. And finally, there is a long tail of smaller economies where a fully developed CMU could make a big difference. This wide range matters in terms of generating political momentum and ownership behind efforts to expand capital markets. It is too easy for many countries with less developed markets to park the problem in the 'too difficult' or the 'not relevant box'.

EARLY STAGE INVESTMENT IN THE EU

Fig.3 The scale of early stage activity in the EU

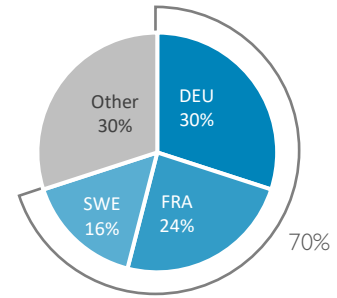
i) A question of scale

The value of early stage investment in the EU from 2018 to 2022 compared with the US, Canada, and the UK in €bn



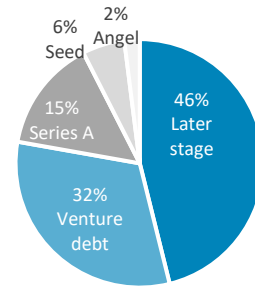
ii) Concentration

Country share of EU early stage investment in 2022



iii) Composition

Composition of EU early stage investment in 2022*



Source: New Financial analysis of data from Preqin and individual stock exchanges

* Data for angel investment is estimate based on 2021

Playing catch-up

The disparity between the size and depth of capital markets in the EU and other developed markets is particularly stark when it comes to early stage investment. Fig.3i shows that in the five years to the end of 2022, the value of early stage investment in the US was more than six times larger than in the EU (€845bn compared with €131bn). If the UK (€72bn) were still part of the EU it would account for 36% of all EU investment activity. This suggests that early stage innovative companies in the EU - the sort of companies that the EU economy needs to drive growth, jobs, and productivity - are missing out on the sort of funding they need to fulfil their potential compared with their US counterparts. This may reflect the bias in the EU financial system towards bank lending, which is not designed to provide growth capital to high potential but higher risk companies.

Another challenge for early stage investment in the EU is that it is an unusually concentrated and lumpy market: the three largest markets (Germany, France, and Sweden) represent 70% of all EU investment activity, despite accounting for just 45% of combined GDP, as shown in Fig.3.ii. This level of concentration is significantly higher than the average share of 59% for the top three countries in other sectors of the capital markets in the EU, and suggests that high potential companies in some smaller markets are missing out on investment.

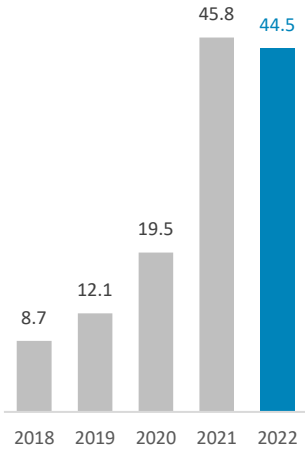
The composition of early stage investment is perhaps surprising. Of the €45bn in early stage investment in the EU in 2022, less than 10% is in the form of angel investment (2%) or seed funding (6%), with Series A funding - financing for companies that have demonstrated proof of concept - accounting for another 15%. Later stage investment, for more established companies with a clear track record of growth, represents nearly half of all early stage investment (46%), with venture debt (lending to early stage companies) accounting for the remaining third.

THE GROWTH IN EARLY STAGE INVESTMENT IN THE EU

Fig.4 The growth in early stage investment activity

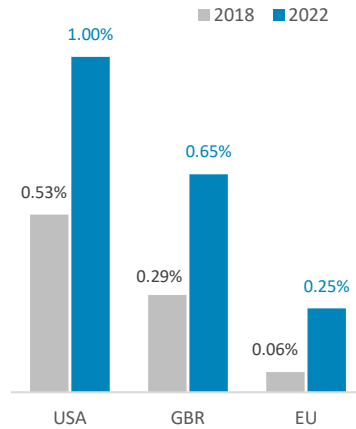
i) Growing...

Value of early stage investment in the EU
2018 to 2022 €bn



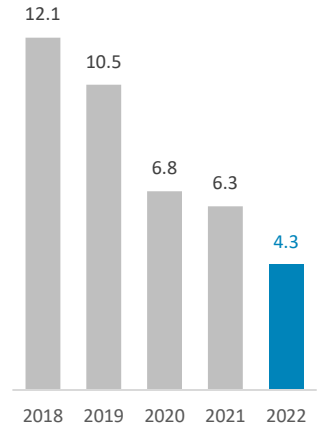
ii) Getting deeper...

Early stage investment relative to GDP
(three years to 2022 vs three years to 2018)



iii) Closing the gap...

The ratio of US activity to EU activity
from 2018 to 2022



Source: New Financial analysis of data from Preqin

Note: for a full sector-by-sector growth analysis see the appendix on page 13

Encouraging progress

One of the most encouraging developments in EU capital markets over the past five years has been the rapid growth of early stage investment across the board. In the five years to 2022 the total value of investment in early stage companies in the EU increased five times to nearly €45bn (see Fig.4i) according to data from Preqin. The trend in virtually every sector has been the same: healthy growth from 2018 to 2020; an explosion of activity in 2021; and activity holding up reasonably well in 2022 despite a wider market downturn. It is early days for 2023 but the initial data for the first quarter shows a significant fall in activity: investment fell by 71% to just €4.1bn compared with the same period last year, with later stage funding hit particularly hard. This decline suggests that members states and the EU will have to redouble their efforts.

It is particularly encouraging to see that Seed investment and Series A investment, which involve funding companies at a very early stage, remained resilient in 2022. However, the value of later stage investment, which involves follow-on investments in companies that have already received external backing, fell sharply in 2022 (by 30% to €21bn). This could suggest a problem further down the line if companies that are trying to scale-up struggle to access capital.

This rapid growth means that the gap between the US and EU has been closing over the past five years. Fig.4ii shows that in the three years to 2018, early stage investment in the US was nine times larger relative to GDP than in the EU (0.53% a year vs 0.06%) and activity in the UK was five times larger. While activity has doubled in the US and UK, it has quadrupled in the EU and now stands at 0.25% a year in the three years to 2022, reducing the gap to 'just' four times.

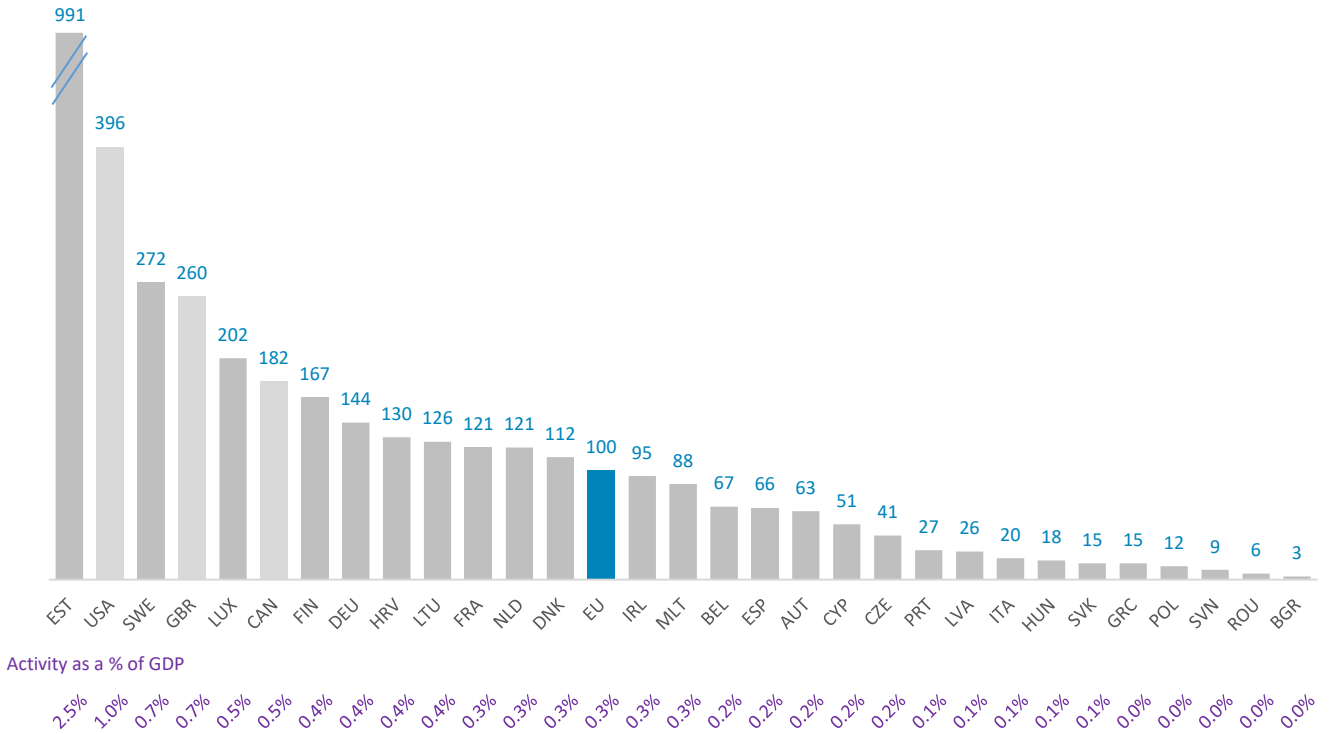
In the decade before 2018, activity in the US was 12 times larger than in the EU each year. But over the past five years this ratio has dropped every year from just over 12 times in 2018 to just 4.3 times last year (see Fig.4iii). This concerted and significant narrowing of the gap between the US and EU market in the past five years could mark a more structural and permanent change. However, there is still a long way to go for early stage investment in the EU to be anywhere like the levels seen in the US, Canada, or the UK.

THE RANGE IN EARLY STAGE INVESTMENT IN THE EU

Fig.5 The range in depth and development of early stage investment activity in the EU

This chart shows the value of early stage investment activity relative to GDP by country in the three years to 2022.

Note: rebased to EU average = 100



Source: New Financial analysis of Preqin data

A range of opportunity

Early stage investment activity is highly concentrated and not evenly distributed across the EU, which suggests that high potential companies in some markets may be missing out on the capital they need. Fig.5 shows the value of early stage investment by country in the three years to 2022 as a percentage of GDP, rebased to the EU average as 100. The wide range in depth highlights what individual member states can achieve on their own merits and underlines the huge potential growth opportunity across the EU.

Estonia is the most developed market relative to the size of its economy with early stage investment equivalent to 2.5% of GDP a year: more than double the level in the US and 10 times higher than the EU average (although it accounts for less than 3% of all activity in the EU). Sweden is the next most developed market (ahead of the UK) and it is encouraging to see that activity in Germany is well above the EU average and a lot more developed than the rest of its capital markets.

We think this chart should send a strong aspirational message to individual member states: if Estonia can attract early stage investment of 2.5% a year, why not Lithuania (0.32%) or Latvia (0.06%)? If Sweden can manage 0.7% a year, what about the likes of Denmark, Belgium, or Austria? And what is stopping large economies such as Spain (0.17%) or Italy (0.05%) having the same sort of market as France (0.30%) or Germany (0.36%)?

In other words, this chart is not so much asking 'what can be done at an EU level to boost early stage investment?' but 'what can individual member states do to support and attract more early stage investment given that comparable economies have already shown what can be achieved?'. We explore what this growth might look like in the next few pages.

DEPTH OF EU EARLY STAGE INVESTMENT BY COUNTRY

Fig.6 What is the depth of activity across EU countries?

This table provides an 'at a glance' ranking of the depth of early stage investment in each EU country and the UK across eight sectors of activity. It is divided into four groups, from most developed (top quartile) to least developed (bottom quartile).

● Top quartile ● Second quartile ● Third quartile ○ Bottom quartile

	Overall ranking			Types of early stage investment				Related investment activity		
	Rank	Country	All early stage	Seed	Series A	Later stage / other	Venture debt	Growth stock market	Angel investment	Private equity
Top quartile	1	EST	●	●	●	●	●	●	●	○
	2	SWE	●	●	●	●	●	●	●	●
		GBR	●	●	●	●	●	●	●	●
	3	LUX	●	●	●	●	○	○	●	●
	4	FIN	●	●	●	●	●	●	●	●
	5	DEU	●	●	●	●	●	●	●	●
Second quartile	6	HRV	●	○	●	●	●	●	●	●
	7	LTU	●	●	●	●	●	●	●	○
	8	FRA	●	●	●	●	●	●	○	●
	9	NLD	●	●	●	●	●	○	●	●
	10	DNK	●	●	●	●	●	●	●	●
	11	IRL	●	●	●	●	●	●	●	●
Third quartile	12	MLT	●	●	●	●	●	○	●	●
	13	BEL	●	●	●	●	●	○	●	●
	14	ESP	●	●	●	●	●	●	●	●
	15	AUT	●	●	●	●	○	●	●	○
	16	CYP	●	●	●	●	●	●	●	○
	17	CZE	●	○	●	●	●	●	●	●
Bottom quartile	18	PRT	●	●	●	●	○	●	●	●
	19	LVA	●	●	●	●	●	●	●	●
	20	ITA	●	○	○	○	●	●	○	●
	21	HUN	○	○	●	○	○	○	○	●
	22	SVK	○	○	●	●	●	○	○	○
	23	GRC	○	○	○	○	●	●	○	●
	24	POL	○	●	○	○	○	●	●	●
	25	SVN	○	○	○	○	●	○	●	●
	26	ROU	○	○	○	○	○	●	○	○
	27	BGR	○	●	○	○	○	●	●	○

THE GROWTH POTENTIAL IN EARLY STAGE INVESTMENT

Bigger and deeper

The previous two pages have highlighted the wide range in the level of early stage investment across the EU. The data can also be used to provide a directional estimate of the growth potential in early stage investment and its impact in practical terms. Overall, we estimate that early stage investment activity in the EU could grow by 64%, which translates into an additional €24bn of investment in nearly 4,800 extra companies a year (see Fig.7).

We ran a simple 'what if...?' analysis based on the rankings by quartile: what if the value of early stage investment activity in each country increased to the average level of the countries in the quartile above?

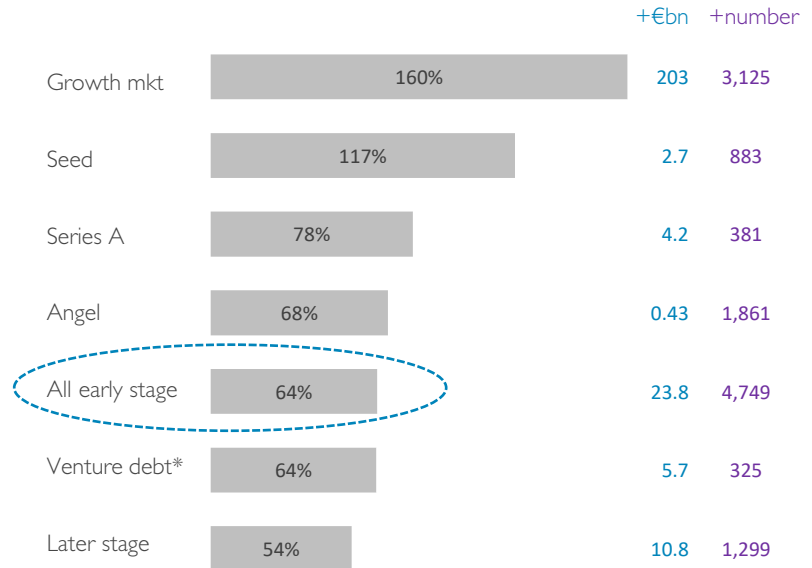
For example, investment in Spain of €2bn a year over the last three years translates into 0.17% of GDP, at the top of the third quartile. The average depth of countries in the quartile above is 0.28%. If activity in Spain increased to that level - and there is no particular reason why Spain should not have the same sort of market as France or Belgium - it would translate into an increase of 80% in investment or an extra €1.7bn a year being invested in at least 280 additional companies. If you repeat this exercise for each country and each sector (and apply a conservative growth rate of half the average growth to countries in the top quartile) you get an ambitious but achievable measure of the growth opportunity across the EU.

At an EU level, this growth ranges from 160% for the market value of growth stock markets (an extra €203bn and more than 3,000 extra listed companies) to 'just' 54% for later stage investment (an extra €11bn a year funding nearly 1,300 companies). At a country level (see Fig.8) activity in Germany would increase by nearly 60%, unlocking an extra €8bn a year for roughly 770 companies. In Italy, activity would more than triple with an additional €1.9bn a year supporting 520 companies. And across Central and Eastern Europe (what we call the EU11) this directional growth would mean activity more than doubling with an extra €2.3bn to support more than 900 companies.

Fig.7 The growth potential by sector at an EU level

The growth opportunity in early stage investment activity at an EU level
The numbers in blue show the potential increase in value in €bn

The numbers in purple show the potential increase in the number of investments

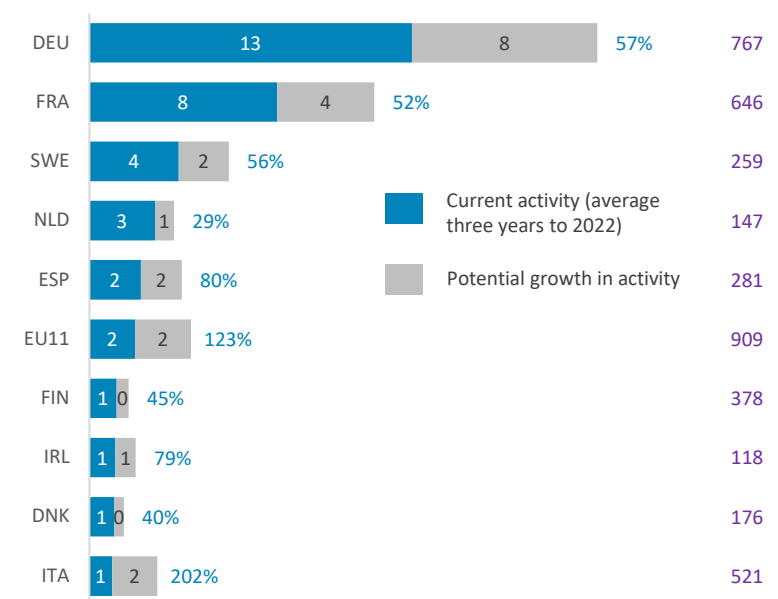


* Note: the high concentration of activity in just two countries for venture debt means that we have applied the average potential growth of the other sectors instead of a quartile-based analysis

Fig.8 The growth potential by country

The growth opportunity in early stage investment at a country level

The numbers in purple show the potential increase in the number of investments



Source: New Financial analysis

Note: for a full country-by-country growth analysis see the appendix on page 12

Financing innovation: unlocking the growth potential

One of the key messages in this report is that early stage investment in the EU has made significant progress in the past few years but needs all the help it can get to fulfil its potential, particularly in the wake of rising interest rates and recent market turmoil. This will not happen by accident, and will need a combination of 'top down' measures at an EU level *and* 'bottom up' initiatives at a national level. Here are some questions and suggestions for policymakers across the EU to consider:

- 1. The wider picture:** innovative companies do not exist in a vacuum - they need a supportive business, legal, regulatory, and social environment. Many of the challenges they face are more 'upstream' in nature than regulatory changes, such as education, corporate and personal tax, labour laws, government bureaucracy - as well as housing, infrastructure, and social policy. Innovative companies thrive in cities that mobile and talented people can afford to move to and want to live in.
- 2. A unified market:** the single market is a perpetual work in progress, but the remaining barriers to a genuinely unified markets in terms of hiring, bureaucracy, and regulation are one of the biggest obstacles for innovative companies. Europe does not have a start-up problem, but too many companies struggle to scale-up in a fragmented European market and find it easier to expand in larger markets like the US.
- 3. Direct investment:** public sector vehicles that invest directly in high potential companies help kickstart market growth and encourage private sector investment. There is a danger in assuming public money can solve the problem, but examples such as ALMI Invest in Sweden, Bpifrance in France, or High-Tech Gründerfonds in Germany show how active public sector investment can galvanise activity.
- 4. Scale-up funds:** despite rapid growth in early stage investment in the EU, later stage investment and scale-up capital is still underdeveloped. The TIBI programme in France to help connect companies with institutional investors shows the value of governments playing a co-ordinating role in providing scale-up capital to help companies through the 'valley of death' as they grow to maturity.
- 5. Open vs closed:** one of the trade-offs to consider is the balance between the EU being open to investment from overseas while encouraging the development of more domestic investment. For example, we estimate that US investors were involved in just over half of all early stage investments in Europe last year by value.
- 6. Ecosystems:** the thriving ecosystems for growth companies in London, Paris, Stockholm, and Tallinn did not happen overnight or by accident. One of the best ways to encourage clusters of innovation is to work with successful local founders and encourage them to become funders and mentors, creating well-funded and [self-propelling ecosystems](#) in which returns from successful companies are reinvested in the local market.
- 7. Tax reform:** one way to incentivise this sort of reinvestment by successful entrepreneurs is to design tax breaks at every stage of the funding escalator. The Seed Enterprise Investment Scheme in the UK was specifically designed for start-ups and based on an existing tax scheme for more established companies.
- 8. Not an option:** competition for talent among innovative companies is fierce and money is often tight. This means that share options are a fact of life. Harmonising the structure and tax treatment of options across the EU - and building on the reforms at a national level over the past few years - would help level the playing field (see the [Not Optional](#) initiative).
- 9. Customer of first resort:** much of the innovation in the US and other successful markets has been a response to government demand for new technologies. Too often, governments can default to hiring more established tech companies for projects rather than taking a risk on smaller local companies.
- 10. Intellectual capital:** first class universities across the EU are a goldmine of innovation and technological progress. Governments can work more closely to bring together universities, investors, and companies to help stimulate clusters, and standardise the process of university spin-outs to tap into this rich resource.

About the authors



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William launched New Financial in 2014 to make the case for bigger and better capital markets in the UK and Europe. He previously spent 18 years as a financial journalist as the editor and member of the launch team at Financial News, which was acquired by the *Wall Street Journal* in 2007. He was educated at Oxford, London, and INSEAD.



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[*The politics of EU capital markets*](#)

[*A reality check on green finance*](#)

[*A new vision for EU capital markets*](#)

APPENDIX I: A COUNTRY-BY-COUNTRY SUMMARY

Fig.9 Summary of activity and growth potential in early stage investment

This table provides an 'at a glance' summary of the value, depth, and growth potential in early stage investment in each EU country and the UK.

Activity in 2022 (exc. angel)				Depth in 2022 relative to EU average = 100							Annual growth potential		
Country	Value €bn	% of GDP	# of deals	Overall	Seed	Series A	Later / other	Venture debt	Angel (2021)	Growth market	Value €bn	%	# of deals
Austria	0.71	0.16%	33	57	51	37	102	1	117	11	0.510	76%	156
Belgium	0.85	0.15%	45	54	78	96	65	14	98	8	0.770	89%	102
Bulgaria	0.01	0.02%	5	5	95	0	0	0	104	28	0.077	542%	92
Croatia	0.51	0.78%	4	276	41	0	582	0	42	8	0.097	51%	14
Cyprus	0.03	0.11%	6	40	360	46	28	0	305	1906	0.038	116%	18
Czechia	0.40	0.14%	12	50	20	47	86	6	150	21	0.398	153%	63
Denmark	0.91	0.25%	51	88	163	109	55	112	287	29	0.402	40%	176
Estonia	1.15	3.11%	44	1102	1505	828	1897	0	2083	7	0.357	44%	246
Finland	1.09	0.41%	53	144	179	269	186	20	425	129	0.495	45%	378
France	10.55	0.40%	340	142	136	169	206	37	98	168	3.951	52%	646
Germany	13.55	0.35%	482	126	142	121	106	153	71	38	7.522	57%	767
Greece	0.03	0.01%	7	5	32	9	0	5	27	18	0.152	209%	45
Hungary	0.10	0.06%	3	21	4	0	43	0	44	0	0.203	276%	48
Ireland	1.47	0.30%	62	106	60	120	71	157	93	108	0.831	79%	118
Italy	1.39	0.07%	64	26	12	18	24	35	60	75	1.851	202%	521
Latvia	0.01	0.02%	6	5	85	0	0	2	301	16	0.050	196%	25
Lithuania	0.08	0.12%	7	42	149	226	0	0	288	6	0.069	38%	27
Luxembourg	0.37	0.47%	12	167	146	162	285	0	134	0	0.180	49%	28
Malta	0.03	0.20%	3	72	0	482	0	0	195	6	0.027	73%	8
Netherlands	1.45	0.15%	117	55	123	104	50	27	87	0	0.781	29%	147
Poland	0.21	0.03%	26	11	32	25	11	1	110	61	0.607	298%	192
Portugal	0.13	0.05%	23	19	54	85	7	0	102	24	0.334	207%	191
Romania	0.02	0.01%	10	3	17	12	0	0	64	129	0.214	516%	135
Slovakia	0.09	0.09%	1	30	0	0	64	0	25	0	0.151	317%	22
Slovenia	0.02	0.04%	3	14	0	54	12	0	81	0	0.056	375%	46
Spain	2.35	0.18%	130	63	60	65	61	66	87	211	1.668	80%	281
Sweden	6.96	1.21%	98	431	173	145	155	1010	104	550	2.036	56%	259
EU	44.48	0.28%	1,647	100	100	100	100	100	100	100	23.8	64%	4,749
UK	17.81	0.59%	805	208	277	261	216	160	235	466	-	-	-

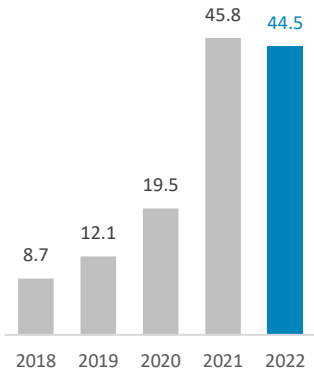
Source: New Financial analysis of data from Preqin, EBAN, and individual stock exchanges

APPENDIX 2: GROWTH IN EARLY STAGE INVESTMENT

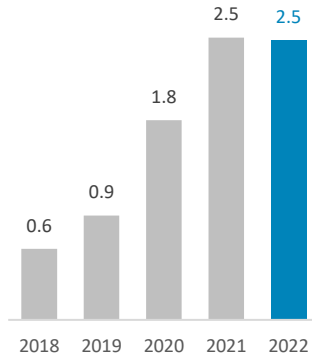
Fig.10 The growth in early stage investment activity in the EU

Summary of the value of early stage investment activity in the EU in different sectors from 2018 to 2022 €bn

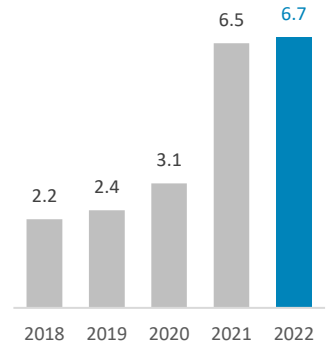
**i) All early stage investment
(excluding angel investment)**



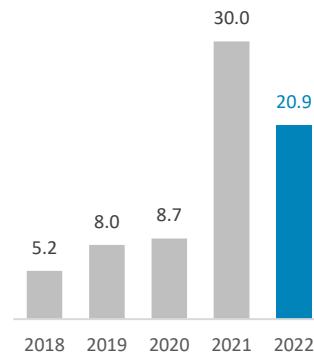
ii) Seed investment



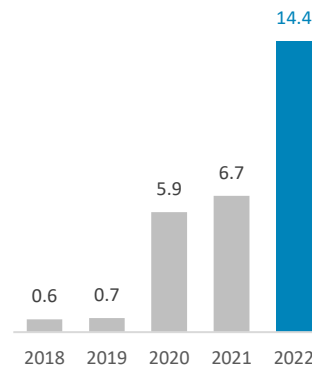
iii) Series A investment



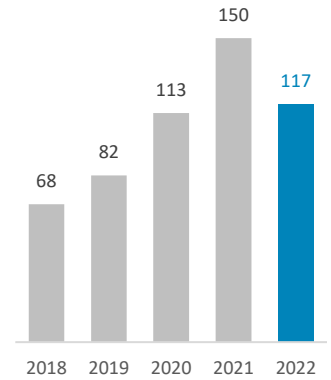
iv) Later stage investment



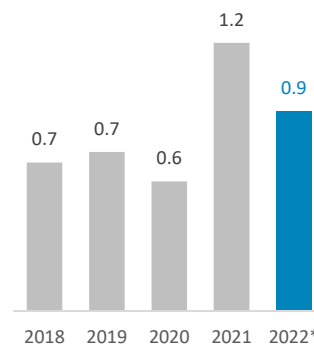
v) Venture debt



vi) Growth stock markets



vii) Angel investment



Source: New Financial analysis of data from Preqin, except EBAN for angel investment, and individual stock exchanges for growth markets

* Note: New Financial estimate of angel investment in 2022

Presidency Issues Note for Working Session II: A LONG-TERM PERSPECTIVE ON FISCAL STABILISATION POLICIES AND SUSTAINABLE PUBLIC FINANCES

Fiscal policy in the longer term – balancing objectives and instruments

Faced with the aftermath of the COVID-19 pandemic and Russia's unprovoked aggression against Ukraine, the European Union and its Member States must respond to multiple, complex challenges. Action is needed to curb inflation; promote growth while speeding up the green, digital and energy transitions; protect employment; safeguard financial stability and fiscal sustainability; strengthen military capacities and ensure a strong competitive base for European businesses.

While navigating these challenges, we should ask ourselves what national fiscal policy can and should do in the longer term. This means going beyond the direct response to today's challenges and discussing the broader orientations of how fiscal policy can contribute to a better functioning European economy and the mix of instruments that could best achieve this.

A key question is what role fiscal policy should play in overall stabilisation. There are several dimensions to balance: responding to asymmetric shocks, promoting future-oriented public investment, safeguarding the sustainability of public finances, and instilling confidence. Clearly, in an optimal mix of measures, fiscal policy should not undermine monetary policy or burden financial stability, where the respective authorities each have their responsibility.

Furthermore, it should be recognised that there is no inherent contradiction between strong public finances on the one hand, and employment and growth on the other hand. Strong public finances build confidence in the economy, by providing firms, investors, and households with stable conditions for financial decision-making.

What will be the long-term trend for interest rates?

Interest rate levels are a key issue for fiscal policy. They affect debt service, the sustainability of public finances and the effectiveness of fiscal stabilisation. Neutral interest rates that neither stimulate nor squeeze the economy should correspond to a level that applies when the economy is in balance (equilibrium employment and price stability). The neutral rate cannot be observed directly. The global downward trend in nominal and real (and arguably also neutral) interest rates that has accompanied the fall in inflation in advanced and emerging economies since the mid-1980s has been driven by a host of factors affecting the saving-investment balance. These factors include globalisation with savings surpluses in emerging economies, demographic changes with ageing populations underpinning a higher need to save, weaker potential growth, and a fall in the relative price of investment goods implying lower investment demand. The downward trend in interest rates was abruptly reversed last year following the spike in inflation.

The question arises as to whether the current higher interest rate environment is a temporary interruption or a changing trend. Whereas many argue that we will not see a return to near-zero interest rates, an environment of relatively modest rates may emerge if pre-existing underlying driving forces come to prevail over short-term disturbances again. However, a partial reversal of these drivers, due to factors such as de-globalisation and market fragmentation or structurally higher uncertainty, may imply higher interest rates for a longer time.

The implications for fiscal policy are profound. If, on the one hand, we return to a situation with low interest rates where monetary policy is closer to an effective lower bound, fiscal policy may need to take on a more active role in sustaining demand if conditions require. Consequently, in a situation with a negative output gap, fiscal policy should be expansionary enough to help lift the interest rate above the effective lower bound with enough margin to allow monetary policy room for manoeuvre. If, on the other hand, higher interest rates prevail, especially in a situation of stagflation, debt-service expenditure will increase and debt sustainability will need to have a higher priority, thus constraining the role of fiscal policy in demand stabilisation.

Discretionary fiscal policy or automatic stabilisers?

Recent exceptional crises have been met with sizeable packages of discretionary fiscal measures, including coordinated action and EU-level programmes. A key downside of discretionary fiscal measures in stabilisation is that they are implemented with variable and not fully known lags, and thus prone to over- and undershooting and may in the current environment fuel inflation. This applies, in particular, to measures with the largest positive structural impact, such as productive public investment. Moreover, discretionary fiscal measures have a well-documented expenditure bias. Also, fiscal policies in EU Member States have tended to be procyclical.

Automatic stabilisers offer a rapid response to cyclical fluctuations as they are temporary by nature and therefore automatically reversing. However, there are downsides to automatic stabilisers as they may potentially be too weak in some countries or conversely excessively strong. They could, for example, increase aggregate demand in a stagflation episode and thereby complicate the fight against inflation. High marginal taxes and permanently high replacement ratios may also have a negative effect on the functioning of the labour market.

Against this background, attention has been drawn to 'semi-automatic stabilisers'. These may comprise targeted tax or spending measures that are activated when a certain pre-defined threshold for unemployment or growth is reached. Examples include short-time work policies, longer or higher unemployment benefits, social transfers, public investment in infrastructure, temporary job programmes, income tax credits or time-limited decreases in indirect taxes. Such measures were successfully used in the EU during the COVID-19 pandemic, suggesting they could have a more prominent role in future stabilisation, given the overall aim to improve the sustainability and resilience of public finances.

Growth-enhancing structural reforms and their relation to fiscal policy

Raising potential growth through structural reforms and public investments with a sufficient societal return has beneficial effects on public finances. Growth normally leads to stronger public finances, both through the expenditure and revenue sides. In addition, it has a favourable impact on the interest rate–growth differential. If growth is higher than the interest rate, debt dynamics will be positive, increasing the room for manoeuvre for fiscal policy.

However, the inherent uncertainty in assessing the impact of reforms or making interest rate and growth projections warrants prudence in estimating policy space. The productivity-enhancing effects of new expenditure are sometimes exaggerated.

Weak productivity growth and related concerns regarding innovation remain major challenges for our economies. There is a need to accelerate investment and improvements in economic structure and implement growth- and productivity-enhancing reforms to enable the green, digital and energy transitions. A step-up towards robust and sustainable finances will support the associated growth-enhancing effects, regardless of the role assigned to active fiscal policy in addressing shorter term fluctuations. The longer term prospects for inflation and interest rates will shape the way in which the public sector can contribute directly to promoting productivity and competitiveness. Another role, which is at least equally important, concerns improvements in the functioning of our economies that will allow the EU to compete successfully in tomorrow's world market. Such a reform focus involves the mobilisation of private investment and financing (which will be discussed in Working Session I), alongside public sector investment. It will require efforts to improve efficiency in public spending and preserve a level playing field in the EU and globally to reap the unique benefits of the single market.

Questions for discussion:

- What priorities should apply to fiscal policy under scenarios of low and higher interest rate levels?
- What is an optimal mix between automatic (or semi-automatic) stabilisers and discretionary fiscal policy?
- How should Member States allow for the necessary future-oriented public investments supporting the long-term sustainability of their public finances? What role should productivity-enhancing structural reforms play when it comes to increasing the room for manoeuvre for fiscal policy?

Presidency Issues Note for Working Session III: UKRAINE RECONSTRUCTION AND COORDINATION OF SUPPORT

Economic and social impacts of the war

More than a year has passed since Russia launched its full-scale invasion of Ukraine on 24 February 2022. Russia's aggression continues to cause immense human suffering and widespread destruction of Ukraine's economy and infrastructure. The social impact of the war is devastating, with an escalating number of military and civilian casualties. According to the United Nations (UN), the war has caused massive numbers of displaced people, and are at a level not witnessed since the Second World War. As of January 2023, the number of Ukrainian refugees recorded in Europe was 8 million, while the number of internally displaced Ukrainians was approximately 5.4 million.¹ An estimated 8 million Ukrainians are now living in poverty, a fivefold increase in one year and a reversal of 15 years of development gains.²

Meanwhile, economic activity has been severely hampered by the destruction of productive capacity, damage to agricultural land and infrastructure, and the reduction in labour supply. According to the International Monetary Fund (IMF), Ukraine's economy contracted by 30 per cent in 2022 and the budget deficit is projected at 20.5 per cent of GDP in 2022 (compared with 3.9 per cent of GDP in 2021). Increased military spending has been one of the main drivers of the increasing budget deficit.³ Moreover, exceptionally high uncertainty stemming from the war has significantly reduced market confidence, heavily constraining private investment and resulting in a loss of access to international capital markets. The inflation rate reached 26.6 per cent in 2022, fuelled by scarcity of goods, logistical supply challenges and monetary financing of the fiscal deficit.

¹ Source: United Nations Office for the Coordination of Humanitarian Affairs (OCHA).

² Source: World Bank.

³ Source: IMF.

In terms of physical destruction, the damage to critical infrastructure is severe. As of February 2023, the Kyiv School of Economics estimated the total cost of direct physical damage to infrastructure at USD 138 billion, more than 70 per cent of pre-war GDP, with the majority attributable to the destruction of residential buildings and roads.

In 2023, real GDP growth is expected at 1 per cent,⁴ but risks are heavily tilted to the downside. The critical issues include the scale, intensity and duration of the war, and its impact on the functioning of the economy, through its effects on labour supply and human capital, physical infrastructure, purchasing power and poverty.

External financing needs

As a result of Russia's ongoing aggression, Ukraine is facing significant financing needs. Ukraine will continue to require external financial assistance in the short and medium term to maintain essential state functions, ensure macroeconomic stability and restore critical infrastructure. According to the IMF, the external fiscal funding needs are estimated at around USD 40 billion for both 2023 and 2024, in a baseline scenario where the war is expected to end sometime in mid-2024. In a downside scenario, in which the war continues for a longer period, the funding gap could be much larger. In addition, long-term financing needs for the reconstruction phase will be massive and extend beyond the rebuilding of physical assets. Total recovery and reconstruction needs were estimated at more than USD 411 billion as of February 2023 by the World Bank, which is more than 200 per cent of the country's pre-war GDP.⁵ Costs will continue to grow as the war continues.

Financing sources and need for coordination

Bilateral and multilateral donors as well as international financial institutions have mobilised extensive financial support to help mitigate Ukraine's acute needs. However, for the post-war reconstruction, it is clear that public funding will not be enough, and support will have to come from several sources. Mobilisation of European private capital and private sector investment, in the form of foreign direct investment and public-private partnerships, will be critical.

⁴ Source: IMF.

⁵ Source: Lugano conference, July 2022.

Moreover, it will be important to continue exploring possibilities for the use of frozen and immobilised Russian assets, including Russian public assets.

Given the multiple sources of financial support, coordination is critical to ensure efficiency and ease the administrative burden on Ukraine. To avoid overlapping and duplication, support to Ukraine from multilateral organisations and international financial institutions should remain guided by their comparative advantages and their respective mandates. The Multi-agency Donor Coordination Platform, launched in January this year, could have a crucial role to play as it brings together relevant donors such as the G7, EU, international financial institutions, and the Ukrainian authorities. Furthermore, at EU level, both the Ad Hoc Working Party on the Multi-agency Donor Coordination Platform and the Ad Hoc Working Party on Frozen and Immobilised Assets will be important in facilitating discussions and progress on collective support measures.

EU integration as an anchor for reconstruction efforts

The overarching principles for the reconstruction process should be full ownership by the Ukrainian authorities and EU membership as the political and economic endpoint for the post-war phase. The path to membership and integration into the EU economic bloc should hence provide an anchor for the reconstruction efforts, and conditionality attached to external support should underpin this agenda. Reform efforts should include the strengthening of market mechanisms, institutional frameworks, good governance, the energy and infrastructure sectors and the social safety net with the objective of ensuring a modern, greener, more inclusive, and dynamic economy fit for EU membership.

Questions for discussion:

- How can the EU together with other relevant stakeholders in the international community ensure efficient and effective coordination of financial support to Ukraine?
- How should the need for acute liquidity financing be coordinated with other long-term efforts, such as the planning of Ukraine's reconstruction and the transition to longer-term financing support with the aim of securing a path towards EU membership?