



## **A common call for a Franco-German revival**

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For more than 60 years, France and Germany have had a productive friendship. By working together and seeking compromises despite frequent initial differences, our two countries have helped move Europe forward. Today, the French-German dialogue has been weakened, mainly due to domestic political instability on both sides of the Rhine. But this dialogue is now needed more than ever before, as the threats to Europe are clearly increasing.

In addition to long-term tasks arising from climate change, population ageing and digitalisation, we have to deal with geopolitical crises and tensions. The outcome of the US election may well add to such tensions and should be taken as a wake-up call. Against this backdrop, France and Germany should stand strong together. To divide us would be to condemn us, and to condemn Europe. But if we speak with one single voice, and further engage with our European neighbours, Europe can be an important player on the international stage.

As colleagues in the ECB Governing Council, as friends, as dedicated Europeans, this is why, today, we are united in calling for a revival of joint French-German action. Because we can witness how useful it has proved in the last 15 years for overcoming crises, and because we believe that Europe still has the levers to master its economic destiny and strengthen its growth, if – and only if – it has the common will to do so.

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I. We must not forget the last 15 years. Starting in 2009, the global financial crisis developed into the sovereign debt crisis in the euro area. Some highly indebted euro area Member States faced the prospect of losing access to capital markets, and there was a danger that the euro area might break up. Instead, Europe became more robust: Member States set up a rescue shield and created the European Stability Mechanism and the Banking Union. Our countries initially held different opinions. France favoured a greater pooling of debt, whereas Germany emphasised the responsibility of the individual Member States. But in a dialogue based on trust, our governments managed to find common ground. France and Germany reached yet another fruitful compromise in 2020 in the face of the coronavirus crisis. Member States then adopted an exceptional and temporary crisis management tool, the Next Generation EU fund worth EUR 750 billion, which helped manage the impact of the coronavirus crisis.

In the Governing Council, the 26 members of the Governing Council of the ECB alongside Christine Lagarde treat each other with respect and trust. We had to cope with the 2021-22 inflationary surge; inflation is back down from more than 10% two years ago to 2.0% today. We did not always completely agree on the monetary steps to be taken, but together with our colleagues on the Governing Council we were always able to reach a decision. And victory against inflation is in sight. We are dedicated supporters of a digital euro, both in a retail version for everybody and a wholesale digital currency for financial markets. A digital euro would be a truly European project, relying entirely on European digital infrastructure and thus strengthening European autonomy in payments. We also welcome the completion last year of a revision of the European fiscal rules. The euro area needs stable and sustainable public finances to be able to cope with the tasks ahead of us. We expect each country to stick firmly to these common rules.

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II. What is to come? In the economic field, our two countries and Europe have a choice: they can continue on the low-growth, low-productivity and low-innovation path of the last 30 years – and especially the most recent ones – which the Draghi report describes as “slow agony”. Or they can pool their strengths to achieve an ambitious and even disruptive roadmap. This choice merits two explanations:

Obviously, US economic policy will increase the challenges: we both believe that protectionism is detrimental to price stability and growth – including in the US itself. We both believe that overly lax fiscal policy could raise long-term interest rates. Hopefully, there will be some room for discussion in the G7 and elsewhere. But our destiny is also in our own hands: we cannot change the other side of the Atlantic, but we can and must change our own side.

In our view, the reports by Mario Draghi and Enrico Letta provide important guidance for the roadmap. Regarding funding, we both welcome using the European budget for challenges that should be tackled at the European level. However, more common European debt is not at this stage a prerequisite to move forward: let us prioritise the many costless and more structural proposals of the reports.

How we need to move forward, with a greater sense of urgency, can be summarised in three points: Deepening our single market, creating a Savings and Investments Union, and reducing bureaucracy to increase innovation – or, to use physiological words: **size X muscle X speed**.

**Size:** Our single market is as large in GDP terms as the US, but it is fragmented, especially in services and telecoms, and this weighs on its attractiveness and dynamism. According to the IMF, reducing internal obstacles by 10% could add 7% to growth. Size also means pursuing a competition policy with a genuinely European focus.

**Financial muscle:** The Savings and Investments Union will be founded on two major components: a completed Banking Union and a refocussed Capital Markets Union. We have investment needs, and we have the resources (with more than EUR 300 billion excess private savings each year), but unlike the United States we still lack the right intermediation, especially in equity and venture capital.

**Speed:** More innovation and less bureaucracy will help us move forward. Indeed, the digital and energy transitions will rely on technological breakthroughs; therefore, we should evolve from a purely regulatory mindset to a framework and culture that enables innovative entrepreneurs to realise their ideas. And as Robert Schuman proposed a Coal and Steel Community in 1950, we should now be bold enough to launch an AI and Technology Community.

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The Russian war against Ukraine has brutally shown us that economic integration is no guarantor of peace. A stable Europe would also benefit strongly from close coordination between France and Germany beyond economic policy. It is true that our countries sometimes hold different opinions in areas such as security, trade and energy. But the more threatening this world becomes, the more important it is to bridge our differences and stress what unites us. We welcome the compromise reached in October 2023 to reform the EU's electricity market. And we call for a much more European approach to defence policies. Taking defence as a truly European task should lead to more joint procurement of armament and, relatedly, a higher common budget for defence. If our political and economic dialogue regains its historical quality, we can carry on helping Europe to be resilient in such challenging times and to accelerate. We are both wholeheartedly committed to this crucial objective.