

# Opening address by the Eurogroup President, Paschal Donohoe, at the Dublin Economics Workshop on “Europe, Covid and the Euro”



Thank you to Ciarán for the kind introduction and to the Dublin Economics Workshop (DEW) for the invitation to speak today. I know I was originally pencilled in for February, so thanks for being so accommodating and it's a great way to start the week.

I know that the DEW traditionally was hosted in Kenmare, before moving around the country to the likes of Limerick, Galway and Wexford. Today of course, due to COVID, we are virtually based in Dublin.

These virtual events have become part of the new norm as a result of how we have had to adapt to COVID-19. It has transformed many of the ways in which we work and interact. However, I do miss the physical meetings. It can also be difficult to gauge the mood in the room for want of a better phrase, so I plan to keep my remarks relatively short.

But I look forward to addressing you all in person, in the not too distant future.

Today, I want to focus on the euro area and our response to COVID-19. I will do so more from my role as President of the Eurogroup rather than as Minister for Finance. One of the things I have done as Eurogroup President is to use these virtual forums as a means of reaching out more. Today's talk follows similar engagements that I have had with the LSE last month and the Hertie School last Friday.

I will try to outline my insights with you on Eurogroup, its role, my own priorities as President and our response to date to COVID-19. The latter brings me to the statement that we issued this day last week on budgetary policy. I will go into some detail on this work as it is likely to be of particular interest for this audience.

One of the tenets of my Presidency was built around a vision of an effective, inclusive and transparent Eurogroup. It is for these reasons that I place a particular emphasis on engagements like today. So I look forward to hearing your own views and your questions.

## **Eurogroup – Role**

So to begin, I was elected President of Eurogroup last July for a two and a half year term.

Eurogroup is an informal body of Euro Area Finance Ministers. Our main goal is achieving consensus on economic policy through a focus on political and strategic discussions. This is somewhat different to ECOFIN's more legislative role and the latter is also explicitly an EU27 body.

Our aim is to ensure the close coordination of economic policies across the Member States so as to promote stronger and more resilient growth.

Eurogroup meetings require considerable preparation to ensure they are centred around relevant political discussions that feature a high level of engagement from Ministers and other informed experts. The sharing of experiences and perspectives plays a key role in engaging Ministers and building up understanding and consensus. Again, the issues of communication and coordination are vital.

Every Eurogroup meeting is preceded by numerous calls to my ministerial colleagues and their teams. This is how we get our work done.

It is one of the means I use most to help understand the issues at play for each member state. This regular communication also allows us to build the pillars of rapport and understanding upon which all political agreements depend on.

From these calls and meetings, it has really stuck me how similar we all are in the battle against COVID-19. We are all facing similar sets of problems, such as the closure of hospitality sectors and trying to choose the best supports, such as job retention schemes. Often, the only difference is timing.

As President, I also engage actively with the EU institutions. This includes the ECB, the Commission, the ESM and the Council. We also have regular 'inter-institutional actor meetings', a mouthful, I appreciate, but in simple terms that involves the Presidents of the Council, Commission, ECB and myself. All of these feed into how we operate.

Another key part of my role is to represent Eurogroup at the European Council. I presented to our leaders back in December and will do so again later this week on the International Role of the Euro.

I also attend G7 meetings – again representing the euro area. These are currently chaired by the UK and just last month we spoke on the common challenges created by COVID-19 and the global economic response to it.

We are also fortunate in that we can expand Eurogroup, into a more inclusive format, depending on the topic at hand. This can involve opening up discussions to include non-euro area countries but also in inviting external speakers to participate on selected topics.

Since July, we have heard from the European Centre for Disease Control (ECDC) and their Director Andrea Ammon on COVID-19, Professor Lawrence Summers on economic policy and most recently Dr Mike Ryan and Dr Bruce Aylward from the WHO, also on COVID-19.

So I hope this, 'whistle-stop tour' of how we operate gives you an insight into Eurogroup and its central role in economic and fiscal policy making. All of this is of course underpinned by a very detailed workplan. We have five broad objectives:

- Economic and fiscal policies to support recovery and long-term growth;
- Use of banking union as a source of stability and growth;
- Capital markets union (in terms of the euro area aspects);
- The euro as a digital currency; and
- The international role of the euro.

I won't discuss all of these today as I want to focus on the very first item – economic and fiscal policies that support recovery – particularly given this is of interest to all.

## **Euro area response to COVID-19**

As an avid reader, I am very aware of recent commentary on the US fiscal response, relative to the EU. There is no doubt that the US plans are ambitious and very large, which is to be welcomed. However, I think it would be amiss to underestimate what the euro area and the broader EU has done. Here too, the response has been extraordinary, in every sense.

In fact, I have repeatedly highlighted that the EU has stepped up to the challenge posed by COVID-19 and Eurogroup has played a leading role in this.

Just to highlight some of what has been done – we built up the necessary level of political momentum to set up the Recovery and Resilience Facility (RRF). The original idea for it was agreed as part of the (inclusive) Eurogroup statement of 9 April 2020.

Eurogroup was also supportive of the activation of the general escape clause, for the first-time last March. This sent a clear and early signal to the markets that this crisis, and our response to it, would be very different.

Three critical key safety nets were also quickly agreed at Eurogroup as a direct counter to COVID-19 – to the value of €540 billion; SURE, the ESM's Pandemic Crisis Support and the EIB's pan-European guarantee fund.

These schemes are fully operational and the success of SURE in particular – in terms of Member States accessing it and also in respect of how oversubscribed bond offerings have been – speaks volumes.

More broadly, the centrepiece of the EU response to date has been Next Generation EU and the Recovery and Resilience Facility (the RRF). This was a momentous step for the EU to take. While just over a year ago, this crisis would have been unimaginable, I think the EU's response to it has also been equally unimaginable.

The Eurogroup also agreed in November to the ESM Treaty Reform and the early introduction of the backstop to the Single Resolution Fund. These decisions are strengthening our crisis response mechanisms and protecting our citizens.

They are tangible actions with long-term benefits for all. Before I move on, I should also recognise what national governments have done, as well as the role of the ECB.

There is no question that fiscal and monetary policy have worked hand-in-hand. This is something that wasn't always the case – all we have to do is look back at previous crises. From the outset, the ECB has been decisive in their monetary policy actions notably through the Pandemic Emergency Purchase Programme. Their decisions have been vital in keeping yields low and in facilitating liquidity. They have helped to instil an air of confidence and certainty at a time marked by uncertainty. This was again in evidence just two weeks ago with their most recent monetary policy decisions.

National governments have also stepped up and have taken unprecedented steps to protect incomes, lives and livelihoods. We have seen record levels of government borrowing to facilitate the operation of our automatic stabilisers and new and innovative discretionary income support schemes for individuals and businesses.

While estimates vary, last year close to 8% of GDP was spent supporting our euro area economies, with an additional 19% of GDP in various types of liquidity support. All of these decisions have helped crisis supports flow in an efficient and effective manner. They are protecting millions of people on a daily basis.

Reflecting back on what has been done – the speed, breadth and depth of decision-making stands out. Economic policy has been bold, agile and effective.

To highlight one economic metric – Okun's Law – the relationship between output and unemployment – has not held up in Europe with job losses far less than what we might have imagined given the scale of the economic shock.

In recent weeks, and as I mentioned earlier, we have seen a number of comparisons on the respective sizes of the EU and US economic responses. These arguments miss the point. They also deflect from what each country is doing. Aside from obvious differences between the US and 19 euro area countries, there are inherent differences in our economies, in our social protection systems and in our longer-term objectives.

Ultimately both economic blocs – for want of a better phrase – are injecting huge amounts of resources into battling COVID-19. These stimuli will also mutually reinforce one another.

Ironically, I spent part of my Saint Patrick's Day celebrations in discussion on this very issue with Secretary Yellen. We both firmly agreed on these points and that we will engage further on these issues at forums such as the G7.

Before I conclude, I'd like to give you an insight into how Eurogroup practically impacts on the fiscal policy of the 19 Member States, based on our Eurogroup meeting last week and the statement issued in relation to

budgetary policy.

## **Eurogroup – budgetary policy orientation**

At Eurogroup we have regular discussions on economic policy. Usually, these debates occur at particular points in the year centred on the European Semester – for example around budget time, and mid-year following Stability and Convergence programmes and the Commission’s spring package.

However, last week’s statement marked somewhat of a change. There was a feeling that we needed to reaffirm our economic messaging in respect of budgetary policy coordination, not just for this year but also in terms of 2022, so that Member States could prepare budgets that continue the vital economic supports to citizens and businesses.

This culminated in the statement we issued last Monday evening, on which there was absolute consensus.

There are a number of elements to it, but the key takeaway was the unanimity on the need for supportive economic policy right across the euro area. In simple terms, we reaffirmed that there will be no premature withdrawal of budgetary support. While the wording was agreed on Monday, the statement was underpinned by a consensus built up with colleagues across Eurogroup over the past year.

Eurogroup will also issue further guidance later in the year as new data and information comes in. Over the summer, we will take the economic policy conversation forward, with a particular focus on 2022.

To date, budgetary policy has proven to be both very effective and agile. It will need to remain flexible so as to win the battle against COVID-19. In fact, this was at the heart of the second part of the statement – where we emphasised the need for budgetary policy in time to pivot towards more targeted supports.

We also explicitly recognised the challenge posed by higher levels of indebtedness – an inevitable by-product of the exceptional supports at present – and the need to address this in time through differentiated and more sustainable medium-term strategies.

We also stressed the need for ambitious reforms and productive investment, supported by the RRF. The latter offers a unique opportunity for Member States to deliver stronger, more sustainable and inclusive growth while prioritising the green and digital transitions.

## **Conclusion**

To conclude, there is no doubt as to how exceptionally seismic this shock has been. COVID-19 has been a tremendous challenge to all. In fact, we face a virus that uses the same qualities we rely on in Europe, to infect; our interconnectedness, our interdependence and our interconnectivity. So there is an inherent symmetry in all this.

However, there is also a tremendous sense of symmetry in our response. Nobody expected a shattering global pandemic but through Eurogroup and beyond we have the political processes and structures in place to support one another. This, I feel, was the key difference this time.

Europe was different and has responded differently. In a thousand ways.

We have achieved an unprecedented level of coordination on economic and fiscal matters over the past year. All of this is based on the clear goal of supporting citizens, businesses and countries in a time of great need.

To conclude with two quotes from both sides of the Atlantic, which I think is fitting given what we have discussed today:

In the words of Robert Schuman:

*“Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity.”*

In the words of President Theodore Roosevelt:

*“In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing.”*