

# Opening remarks by Paschal Donohoe at the European Parliament's ECON Committee, 21 June 2021



Paschal Donohoe, President of the Eurogroup

*(check against delivery)*

Thank you for inviting me for another economic dialogue. It is a pleasure to appear again before the ECON Committee. I look forward to exchanging views over the next hour or so.

In my introductory remarks, I will report on the main issues the Eurogroup has been working on in the past few months, and on its policy priorities going forward.

## **Economic outlook**

Since we last met, the economic outlook for the euro area has markedly improved. Recent forecasts of international institutions, including the European Commission's Spring Forecast, foresee a strong rebound of economic activity in 2021 and recovery in 2022. Available indicators for the second quarter suggest that the recovery is indeed underway.

The successful rollout of vaccines and the progressive easing of restrictions together with continued fiscal support, pent-up demand and strengthening global demand are key drivers of growth.

This is very good news. However, the economic outlook is still surrounded by considerable uncertainty. The recovery remains predicated on a continued positive evolution of the health situation. There are still many risks, notably related to virus variants.

## **Policy mix and coordination**

This means that we need to update our analysis regularly and be agile in the policy response. This is precisely what the Eurogroup has been and will continue doing.

A coordinated response to an unprecedented health and economic crisis is essential, in particular for countries that share a single currency.

We have a shared interest that all euro-area member states provide the right level of public policy support to mitigate the socio-economic consequences of the crisis and to grow out of it together.

Coordination has been the central theme of our economic policy response, and it remains crucial to address the risks of widening divergences within the

Economic and Monetary Union (EMU).

We are determined to see this through as we transition out of the crisis and into a firm recovery.

## **Fiscal policy**

Let me now elaborate on the euro area's fiscal policy response. In the Eurogroup, we regularly monitor the economic situation and come to a common understanding on the fiscal strategy. We do this partly on the basis of assessments of the European Commission and the ECB.

In March, we unanimously agreed that we should avoid any premature withdrawal of fiscal support. We committed to delivering a supportive fiscal stance both this year and next.

This is the right course of action. We are also cognisant of the uneven impact of the pandemic on our economies and the need to avoid long-term economic scarring. We also need to ensure that the impetus is there to turn the rebound into a sustainable economic recovery. We also agreed that our fiscal response should remain agile and flexible so that we can continue to react to an evolving health and economic situation.

In other words, we will provide our economies with whatever fiscal support is required through temporary and timely measures. These should also become increasingly targeted towards promoting a solid and sustainable recovery.

In practice, this implies that we should gradually move from broad-based income and liquidity support for workers and businesses to more targeted measures. I will come back to this in a few moments.

Public funding should also be increasingly directed to reforms and investment, notably in the green and digital transition, in order to lift our economies' growth potential.

This approach strikes the right balance between supporting the economy and safeguarding debt sustainability, which is key for the credibility of our crisis response.

It is consistent with a broad international consensus on this topic, as reflected in the recent statements by the G7 finance ministers and leaders.

It is also in line with the fiscal guidance that the Commission outlined in its Spring Package, where it confirmed that the general escape clause of the Stability and Growth Pact would remain active next year, at which point all euro area economies should have returned to pre-crisis output levels.

Credible medium-term fiscal strategies will also help anchoring our commitment to fiscal sustainability and instilling confidence. Therefore, the Eurogroup looks forward to the Commission relaunching its review on the EU's economic governance later in autumn.

In short, the Eurogroup will continue coordinating national fiscal policies in order to deliver, together with funding from Next Generation EU, an optimal fiscal stance for the euro area. The aggregate fiscal stance should of course allow for differentiation across member states, taking into account the available fiscal space and country-specific circumstances.

## **Structural policies**

Fiscal policy is one pillar of the policy mix. Structural policies are another one, and they require close coordination as well. It goes without saying that Next Generation EU, and in particular the Recovery and Resilience Facility, will play a crucial role in promoting the implementation of sound national reforms and investment projects.

Member states have been working hard to present high-quality Recovery and Resilience Plans. Within the euro area, they have a strong collective interest in a successful RRF, and their plans should be consistent with the “euro area policy recommendations”.

The Eurogroup is the right forum to encourage countries to reflect the euro area dimension in the national recovery plans and their implementation. We will continue to work hard to ensure that Member States prioritise those policies that can reap the full advantages of RRF funding.

In this respect, it is worth highlighting policies that facilitate a swift re-allocation of resources in the economy. The Eurogroup has discussed the structural impact of the pandemic on a number of occasions. The COVID crisis has hit some sectors particularly hard, and at this stage, it is unclear when they will be able to return to their pre-crisis state.

The uneven recovery risks increasing inequality and widening divergences between countries. This would hamper the smooth functioning of the Economic and Monetary Union.

At the same time, the structural impact of the pandemic may be an opportunity to modernise our economies, make them more resilient, for instance by accelerating the green and digital transitions.

This requires coordinated policy action on several fronts, including targeted support to vulnerable groups together with re- and upskilling of labour so that no one is left behind. Distressed but viable firms should be identified and receive adequate support.

We also need to enable an orderly exit of unviable companies. The Eurogroup is looking into ways to enhance and promote the convergence of national insolvency frameworks.

Well-functioning national insolvency frameworks are crucial to safeguard the financial sector’s ability to provide credit to the economy, and to promote an efficient re-allocation of resources.

More progress in this area is needed to build a more integrated financial

sector, centred on the banking union and the capital markets union – projects that the Eurogroup fully supports.

## **Completing the banking union**

This leads me to the work that the Eurogroup has been doing on the strengthening of the EMU's institutional architecture.

Following our agreement in November last year on a more flexible and effective use of the European Stability Mechanism, including a common backstop for the Single Resolution Fund, much of our focus has again been on the completion of the banking union.

The Euro Summit, in December 2020, invited the Eurogroup to prepare a stepwise and time-bound work plan covering all the elements needed to complete the banking union.

In the past six months, there have been many intensive and constructive discussions on the different elements.

In general, we have made good progress. We have managed to narrow down the differences on most questions and developed a deeper understanding of the remaining open issues.

That said, this remains a politically sensitive and technically complex dossier, with interlinkages between the different elements.

This a difficult balancing act. Views have not yet sufficiently converged to be able to agree a credible, ambitious and effective work plan.

At the same time, everyone recognises the importance of completing the banking union for the resilience and competitiveness of the euro-area, and there is a great deal of willingness among member states to make it happen.

This means that we will continue working in the months to come and we will be returning to this subject later in the year.

The aim is to present a comprehensive and ambitious work plan that can meaningfully guide the work going forward, and to deliver concrete progress on some parts within this institutional cycle.

This will result in a stronger banking sector that ensures access to stable funding for the economy and helps absorb shocks across the euro area, while protecting depositors and taxpayers, and promoting competitiveness and strategic autonomy. As we look to recovery, I see the banking sector and the banking union as key facilitators for all of our citizens.

## **Digital euro**

Competitiveness and strategic autonomy also require us to stay on top of financial innovations in banking and payment systems spurred by new technologies.

In this regard, the issue of digital central bank currencies is an important development. The Eurogroup is closely monitoring the ongoing work on a possible digital euro that the ECB recently initiated.

There is strong support among member states to take this project forward swiftly. Leaders confirmed it at the March Euro Summit.

We look forward to the ECB launching the start of the technical and preparatory work that should put us in a position to decide on the introduction of a digital euro in the near future.

A digital euro not only has significant monetary and financial implications, but will also have an important political and societal impact. It touches on many issues including financial sovereignty and inclusion, financial stability, data privacy, cyber-resilience and anti-money laundering.

This is why the Eurogroup intends to be actively involved in this project and to consider developments on a regular basis. We will cooperate with the European institutions, in full respect of their independence and mandates. A digital euro should indeed be a collaborative effort.

## **Conclusion**

Honourable Members of the European Parliament, this brings me to the end of my remarks.

The pandemic has taken a tremendous toll on society. In the spirit of solidarity, decisive and coordinated policy action have played a key role in protecting citizens and businesses during the crisis.

We still have a lot of work ahead of us. However, I am confident that with the same levels of determination, coordination and solidarity, we will succeed in turning the economic rebound into a solid, sustainable and inclusive recovery.

This should be our common goal and I am fully committed to ensuring that Eurogroup delivers on all of these fronts.

In this endeavour, our common currency, the euro, will more than ever serve as an anchor of stability and confidence, not just in Europe, but increasingly also on the global scene.

Thank you for your attention.