Opening remarks by Paschal Donohoe at the European Parliament's ECON Committee, 25 January 2021

Madam Chair,

Honourable Members of the European Parliament’s ECON Committee,

Ladies and Gentlemen,

Thank you very much for inviting me for this economic dialogue with the European Parliament’s Committee for Economic and Monetary Affairs.

This is my first appearance as President of the Eurogroup before your Committee and it is an honour to be here.

Over the past months, I already had the opportunity to talk to some of you. The Eurogroup also exchanged views on the economic situation with ECON Committee Chair Tinagli at its meeting in early-November 2020.

Thank you again, Madam Chair for sharing the European Parliament’s views with us in that discussion. Your views were very well made and I can assure you that Eurogroup members are focused on how we can drive an inclusive recovery.

The European Parliament and the Eurogroup have a common interest in a well-functioning Economic and Monetary Union (EMU). I am sure we all agree that a lot is at stake.

The pandemic has taken its toll on lives, and also on livelihoods. Today, we face the double challenge – to limit the damage to employment and income of what is still an acute health crisis and to bring about a sustainable and socially just recovery.

I will talk about the Eurogroup’s contribution to this endeavour. But before I come to that, I would like to take this opportunity to recall our common response to this pandemic.

The decisions that we took and the measures we adopted throughout 2020 were unprecedented and emphasise the power of collective action. European institutions and member states reacted swiftly to mitigate the socio-economic fallout of the Covid-19 crisis. They have also rapidly prepared the ground for the recovery with a series of bold initiatives.

Europe has learned its lesson from the previous crisis. We confronted a disease that does not recognize national borders by using our economic interdependence as a source of strength. We demonstrated our capacity to act together when it mattered most.

This is something we should all be proud of. I would like to express my gratitude to the European Parliament for its constructive cooperation, in particular in the negotiations on the Next Generation EU programme and its centerpiece, the Recovery and Resilience Facility.

Economic situation and policy priorities

Let me now say a few words on the economic situation.

The global pandemic triggered an unprecedented economic contraction in 2020. The strong yet incomplete rebound in the third quarter of last year proved to be short-lived.

The resurgence of infections – including the emergence of even more contagious virus mutations – and the return to the stricter containment measures are expected to weigh on economic activity in 2021.

This implies that we will need to continue supporting our economies to preserve income and employment, in particular in the most affected sectors. At the same time, compared to 2020, the economic outlook has improved. The roll-out of vaccines gives us reason to be more optimistic, although there is still some way to go.

Other factors also suggest that there is an improvement in our prospects. There is the trade deal with the UK, the reduced geopolitical tensions, and the prospect of Recovery and Resilience Facility (RRF) funds reaching the member states in the second half of the year.

Fiscal policies

I believe it important that finance ministers debate and reach a common understanding on the appropriate fiscal stance by the summer. This can then serve as guidance for the preparation of their draft budgetary plans for 2022.

To avoid any misunderstanding, let me stress that this is not about an imminent withdrawal of fiscal stimulus. We all agree that our immediate priority is to economically shield and support our citizens, in particular younger women and men and those most exposed to the crisis. There must be no cliff-edges.

In relation specifically to the overall fiscal framework and the rules, these will be key considerations later in the year. We will look to engage actively with the Commission on these matters.

There is also a qualitative dimension to our budgetary discussions. As we make progress in overcoming the health crisis, the focus of fiscal policy should gradually shift from emergency support to supporting public investment and reforms that raise potential growth. We need to coordinate our efforts for sound fiscal plans for the future so that when the time comes to adjust, we are prepared.

I cannot prejudge the Eurogroup's discussion, and we will listen carefully to the updated assessment of the economic situation by the Commission and the ECB on the basis of new economic forecasts later in the year.

Let me however note how interlinked this debate is with all the major challenges we will face in the coming period. As I engage with my Finance Minister colleagues, we all recognize that any decisions we take on budgetary policies will have profound implications on how we approach labour market concerns and risks related to banking or non-performing loans.

Macroeconomic imbalances

We also need to be mindful of the fact that the Covid-19 crisis is not only increasing the levels of public indebtedness, but is also exacerbating other "pre-existing" macroeconomic imbalances and creating new risks.

Private indebtedness is on the rise, banks' balance sheets are negatively affected. There is also a risk that income and productivity growth will remain weak for a rather long period.

Addressing imbalances is particularly important for those countries that were already facing challenges in these areas already before the current crisis, notwithstanding their remarkable and effective efforts over the past years.

These are unfortunately often the countries where sectors that have been particularly hard hit by the pandemic – such as transport, travel and tourism – make up a significant part of the economy.

The Eurogroup had a good first discussion on these issues at our meeting last week. It is appreciated that imbalances need to be tackled through an array of actions across policy domains.

Recovery and Resilience / Euro area Recommendations

In this respect, it will be important to make good use of the common EU policy instruments, and crucially, the Recovery and Resilience Plans, which member states will submit and implement in order to access the RRF funds.

This is not only in countries' individual interest, but in the interest of the euro area as a whole, as widening economic divergences between the euro area countries would hamper the smooth functioning of the currency union.

For this reason, it is so important that the euro area countries incorporate the euro area dimension in their RRPs. Sharing a single currency is, after all, an important framework condition for member states' macroeconomic policies.

I am pleased to see that this concern is reflected in the provisional agreement on the RRF reached between the European Parliament and the Council, and that the legal text requires the RRPs to be consistent with the euro area recommendation.

In December, and on the basis of the Commission proposal, the Eurogroup agreed on a number of euro area policy priorities, many of which regard national policies.

Next to implementing investment and reforms, notably in the areas of the green and digital transition, there is the need to strengthen national institutions and to safeguard macro-financial stability.

The Eurogroup will review how euro area member states implement the euro area recommendations through their RRPs.

With this, the Eurogroup can contribute to the success of this vital initiative. It also reflects the determination of euro area finance ministers to coordinate national recovery efforts including in the context of the RRF.

Our objective is to ensure that the positive impact of the RRF on the euro area exceeds the sum of the positive impacts for individual euro area member states.

Strengthening EMU: ESM reform and SRF backstop

A solid recovery in the euro area requires the decisive implementation of policies at tnational level. But that alone is not enough. It also requires us to strengthen the institutional framework of the Economic and Monetary Union.

I am happy to report to you that the Eurogroup has made progress on this front.

At the end of last year, we reached an agreement on the reform of the European Stability Mechanism. On Wednesday, EU ambassadors will sign this agreement and governments will be able to start their national ratification processes.

The revised ESM Treaty entails an important upgrade of the euro area's toolkit. It makes the ESM more effective and flexible.

Importantly, the Eurogroup agreed that the common backstop could be introduced earlier – that is, ahead of 1 January 2024, by which time the SRF will be fully built up with financial contributions from the banking sector.

This agreement is a recognition of the fact that risks in the banking sector had been significantly reduced before the pandemic, and that remaining vulnerabilities will be addressed through action at the level of banks, member states and EU institutions.

The ESM's new features including the common backstop to the Single Resolution Fund, should be operational as of 2022, following the completion of national ratification processes.

With the common backstop we address a crucial gap in the banking union. This, together with a generally more effective and flexible ESM will boost confidence in the euro area’s ability to quell crises before they escalate.

Completing the banking union

I have the firm intention to capitalise on the cooperative spirit that prevailed throughout 2020 to make good progress on the completion of the banking union. And that includes the pursuit of the European Deposit Insurance Scheme.

The current crisis clearly demonstrates how much a fully-fledged banking union is needed. Completing it should be part of our effort to ensure sustainable recovery. Of course, the experience of the last few years – and even over the last few months – has shown that completing the banking union is anything but straightforward.

It comprises many technically complex and very sensitive topics. Member states have different views on how to go about improved crisis management, deepening cross-border integration, safeguarding financial stability and putting in place common deposit insurance.

I am under no illusion that many difficult discussions await us before we are able to reach a compromise on the balance between all elements of this package. But we must try. I do think that there is a window of opportunity and a renewed sense of momentum.

At the Euro Summit last month, leaders asked the Eurogroup to produce a stepwise and time-bound work plan on all outstanding elements needed to complete the banking union.

This is what we will be working on in the coming weeks and months. The aim is to present tangible progress to the leaders in June, when they expect the Eurogroup to report.

Digital euro

The Eurogroup is also following, with great interest, developments in digital finance and how these could impact the euro area economies. This concerns the Commission’s work on digital finance, and in particular the ECB’s work on a possible digital euro.

Currency goes to the heart of sovereignty. I am therefore convinced that euro area member states are key stakeholders in this project. The Eurogroup is keen to engage with the ECB on this matter. I am sure the same holds for the European Parliament.

International role of the euro

The issue of sovereignty brings me to my final point: the international role of the euro.

I welcome the Commission Communication outlining different initiatives to promote a stronger role of the euro on the international scene. I also look forward to the discussion that the Euro Summit will have on this topic in March and which as usual, the Eurogroup will prepare.

I am confident that the economic response to the Covid-19 crisis at the level of the EU and member states, together with the progress we are making on the strengthening of the EMU, will bolster the attractiveness of the euro as an international currency.

A stronger international role of the euro is good for Europe and for the global economy. I see it as an extra motivation for us to continue our efforts to deliver a solid, inclusive and future-proof recovery.

Concluding remarks

I would like to conclude on this optimistic note and reassure you of the Eurogroup’s resolve to do all we can to deliver a strong, inclusive, and lasting recovery.

Coordination of economic policies is more important than ever before. Our economies can only grow out of this crisis if we continue supporting each other and working together.

This is what I am relentlessly working towards.

Thank you very much.

(*check against delivery*)