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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS**PUBLIC HEARING WITH PASCHAL DONOHUE
PRESIDENT OF THE EUROGROUP****BRUSSELS
MONDAY, 25 JANUARY 2021**

1-002-0000

IN THE CHAIR: IRENE TINAGLI*Chair of the Committee on Economic and Monetary Affairs**(The hearing opened at 13.48)*

Chair. – I welcome Pascal Donohoe, President of the Eurogroup since his election in July 2020, for his first economic dialogue with the Members of the ECON Committee. The last dialogue with previous Eurogroup President Mário Centeno took place on 21 April 2020. President Donohoe, we were very pleased to read in your motivation letter as candidate for Eurogroup President that, and I quote here, ‘effectively communicating to our citizens and to the European Parliament the steps we are taking in the euro area will be a priority of my term’. So given your strong commitment in this regard, I would like to take this opportunity to reiterate ECON’s request for enhanced cooperation with the Eurogroup President and invite you to put forward how you intend to answer it.

Due to the key role of the Eurogroup in steering the policy work of the euro area as a whole, we would like to stress the importance of a well-established cooperation practice with the European Parliament, notably our committee. One way would be to go in the direction of the practice we have for the monetary dialogue with the ECB President. In this extremely challenging times the Eurogroup is indeed in a key position. The need for transparency and accountability is therefore crucial in these moments. Today’s exchange of views will reflect the very different topics covering the ongoing work of the Eurogroup, notably short-term policy measures to combat the economic, financial and social consequences of COVID-19, medium-term policies to support a sustainable recovery and increase resilience of the euro area, and longer-term measures relating to the European monetary union governance framework, including completing the banking union.

We are now very much looking forward to hearing you. In line with agreed practices, the following procedure will be applied for this exchange of views with the President of the Eurogroup. There will be introductory remarks by Mr Donohoe of about ten minutes, followed by five-minute question and answer slots, with the possibility of a follow-up question, time permitting of course, within the same slot. So that means two minutes maximum for the question and three minutes maximum for the answer.

In the first round of questions each political group will have one slot and thereafter we will apply the d’Hondt system which determines the order of questions by political groups. If time so allows, additional slots will be allocated on a catch-the-eye basis, taking due account of the weightings of each of the political groups. Since there are also many of us connected remotely, I really would ask you to keep to the time. I now give the floor to President Paschal Donohoe.

1-004-0000

Paschal Donohoe, *President of the Eurogroup*. – 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 Committee on Economic and Monetary Affairs. It's my first appearance as President of the Eurogroup before your Committee and it's an honour to be here.

Over the past months, I already have had the opportunity to engage with many of you. The Eurogroup also exchanged views on the economic situation with your Chair 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 and very clearly made, and I can assure you that the members of the 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, and we all know how much is at stake. The pandemic has taken its toll on so many lives, and also of course on livelihoods. Today, we face a great double challenge: to limit the damage to employment and income of what is still an acute health crisis, and then to bring about a sustainable and a socially just recovery. I will talk about the Eurogroup's contribution to that endeavour, but before I come to that, I do want to recall our common response to this disease.

The decisions that we took and the measures that we have adopted throughout 2020, which we are now implementing in 2021, they are unprecedented and they emphasise the power of collective action. European institutions and Member States reacted swiftly to mitigate the economic harm of the COVID-19 crisis. They also rapidly prepared the ground for the recovery with an array of very strong initiatives.

Europe has learned an important lesson from the previous crisis. We confronted a disease that does not recognise national borders by using our economic interdependence as a source of strength. We demonstrated our capacity to act together when it matters most. And this is something I think we should be proud of, while of course being equally conscious of how much more remains to be done, and I want to express my gratitude to the European Parliament for its role in this work and, in particular, the negotiations on the Next Generation EU programme and its centrepiece, the Recovery and Resilience Facility.

Let me say a few words about where we stand now. This global pandemic triggered an unprecedented economic contraction last year. 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 stricter public health measures are now expected to affect economic activity in 2021.

This clearly 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, but there is still some way to go.

Other factors also suggest an improvement in our prospects, the trade deal with the United Kingdom reduced geopolitical tensions, and the prospect of RRF funds reaching Member States in the second half of the year. I believe it is therefore important that finance ministers continue to debate and reach a common understanding on the appropriate budgetary stance by the summer. This can then serve as guidance for the preparation of draft plans in 2022.

And let me be clear, this is not about the 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 budgetary framework and the rules, there will be key considerations later in the year. We will look to actively engage with the Commission on these matters. But 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 be about how we can gradually shift from emergency support to supporting public investment and to changes that raise growth. We will need to coordinate our efforts to sound planning for the future so that when the time does come to adjust, we are prepared.

I cannot prejudge of course the discussion of the Eurogroup, and we 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.

But 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 will recognise that any decisions we take on budgetary policies, for example, will have profound implications on how we address issues in relation to employment and issues in relation to the future viability of many different employers and then in turn the impact it will have on their loans.

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

Private indebtedness is on the rise. Banks' balance sheets, of course, are negatively affected. There is also a risk that income and productivity growth will remain weaker for longer. So, addressing imbalances is particularly important for those countries that were already facing challenges in these areas before the current crisis, notwithstanding their remarkable and their effective efforts over recent years.

These are unfortunately often the countries where sectors that have been particularly hard hit by the pandemic – such as transport, travel and tourism – also make up a significant part of their economy. And the Eurogroup had a good first discussion on these issues at our meeting last week, and it is appreciated by all of us that these imbalances need to be tackled through an array of actions across many different policy areas.

So 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 RRF funding.

This is not only in countries' individual interests, but it is in the interest of the euro area as a whole, as widening economic divergences between the euro area countries would, of course, hamper the smooth functioning of our currency union. So for this reason it's so important that euro area countries incorporate the euro area dimension in their RRFs. Sharing a single currency is after all an important framework condition for Member States' macroeconomic policy.

I'm pleased to see that this concern is reflected in the provisional agreement on the RRF reached between the Parliament and the Council, and that the legal text requires the RRFs to be consistent with euro area recommendations. 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 green and digital transition, there is the need to strengthen national institutions and of course to safeguard macro-financial stability. The Eurogroup will review how euro area Member States implement the

euro area recommendations through their RRP. With this, we 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. So the solid recovery in the euro area requires a decisive implementation of policies at national level, but that alone won't be enough. It also requires us to strengthen the institutional framework of EMU and I am happy to report to you that we've made progress on that front.

At the end of last year we reached an agreement on the reform of the ESM. On Wednesday, EU ambassadors will sign this agreement and governments will be able to start their national ratification processes. This treaty involves an important upgrade in the policies available to the euro area. It makes the ESM more effective and more 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 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 institutions. The new features include the common backstop to the SRF, should be operational as of 2022, following the completion of national ratification processes. With this 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.

I in turn 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, this includes pursuit of EDIS.

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 completion of the banking union is anything but straightforward.

It comprises many technically complex and very sensitive topics. Member States have very different views on how to go about improving crisis management, deepening cross-border integration, safeguarding financial stability and putting in place a common deposit insurance scheme. I'm under no illusion that many difficult discussions await before we're 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 there is momentum.

At the euro area summit last month, leaders asked the Eurogroup to produce a stepwise and time-bound workplan on all outstanding elements needed to complete the banking union. So this is what we will be working on in the coming weeks and months and the aim is to present this to our leaders in June, when they expect the Eurogroup to report.

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'm therefore convinced that euro area Member States are key stakeholders in this project. We are keen to engage with the ECB on this matter, and I'm sure the same holds for the Parliament.

This brings me to my final point, the international role of the euro. I welcome the European 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, which, as usual, the Eurogroup will prepare.

I am confident that the economic response to the COVID-19 crisis at the level of 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 for the euro is good for Europe and it is good for the global economy. I see this as an extra motivation for us to continue our efforts to deliver a solid, inclusive and future-proofed recovery.

So I want to conclude, Madam Chair, 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 our economic policies, of our efforts, is more important than ever before. Our economies can only grow out of this crisis if we continue to support each other and when we continue to work together.

This is what I am relentlessly working towards. I thank you very much and I'll now be happy to answer any questions.

1-005-0000

Markus Ferber (PPE). – Thank you very much, Chair, dear President, dear Paschal, welcome and I'm happy to have the chance discussing with you on this level, I highly appreciate that.

I have only two short questions. Number one, you spoke on the stimulus package, which was done by all Member States in the eurozone, which, of course, increased the debt levels across the eurozone to unprecedented levels. In fact, the debt-to-GDP ratio in the eurozone is expected to top 100% by the end of 2021. Unfortunately, some Member States already went into this crisis with very high debt-to-GDP ratios, which are now amplified through the pandemic.

So, what is the assessment in relation to long-term debt sustainability on the Eurogroup level and what do you consider to be the most effective way forward to address the high debt levels? And do you think that the current framework for economic governance contains the right tools to tackle this issue or, if not, what do you think would need to be changed?

And you spoke about strengthening the euro. That is not only an issue, I think, inside the European Union, I think it's as well an issue on global level. Do you really think that we have already introduced all instruments for strengthening the euro as one of the leading currencies in the world markets or what could be done on that? And is a digital euro a step forward for that or is it a step aside of this development?

1-006-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much, honourable Member, for your questions. If I could deal with each of them in turn.

Firstly, in relation to the sustainability of debt levels within the euro area. Yes, while they have grown, I also believe that they are sustainable for the euro area. If you look at the outlook that we have, as the Member indicated, our debt levels as a percentage of euro area GDP have increased from approximately 86% to what we expect to be just under 102%, in 2020. So it is indeed an increase in indebtedness across that period, but I need hardly recall to the Committee what that increased level of debt was used to fund; it was used to fund measures to support employment, to support income and to support our citizens at a time of great vulnerability. If the finance ministers, Prime Ministers and the European Parliament had not taken the steps that we had at that point, I fear that the consequences of inaction would have been more

economically damaging and would be more of a social rupture than the great difficulty we are already facing.

To deal with the next part of the Member's question to me, regarding what policy steps can be taken to ensure that this debt can be sustainably managed across the coming period, there would be two action steps that I would prioritise. The first one is how we can take the right steps to rekindle, to regenerate, income and employment growth across the coming period. As we stand now, we have a euro area which will have an unemployment rate of approximately 8.3% for 2020. That's millions of lives, millions of families that have been affected by this. Rekindling growth and seeing the euro area not just move to a rebound but into recovery, for me is the critical foundation in managing the debt levels that the Member has raised.

As we do that, which I believe we will, we then need to inform our policy choices by the consideration of the macroeconomic imbalances that I referred to a moment ago and, in particular, coordinate our efforts so the growth that we will regenerate within the euro area is a growth that all members of the euro area can benefit from and contribute to, and that we are conscious of the risks that I highlighted and conscious of the risks that were recognised in the Commission's paper, which was published last Monday.

Then, to deal with the final set of questions to me, regarding the international role of the euro, what we are yet to do and my view on the digital euro as part of that future for the euro area, in terms of what is yet to do, I would recognise areas that are well known to this committee and to the honourable Member. Firstly, the steps that we need to take in the effective implementation of the recovery and resilience planning facility, I believe will be recognised as an important feature in how a globally significant currency responds to a global pandemic with little precedent. Then, second, the steps that we are now taking regarding, in particular, the deepening of banking union is how we will further strengthen the foundations of the euro for its international future.

On your final question to me regarding the question of the digital future of the euro, again, honourable Member, while recognising the very strong institutional role of our central banks and their independence in this matter, which is recognised by the Eurogroup, my view is that the digital future of the euro and that dimension of our currency's future will be an important consideration in the future of the euro as an even more significant international currency. That is why the ECB are completing their public consultation on this matter and while, of course, at all times, respecting the independence of our central banks, the Eurogroup looks forward to engaging with them on this topic in April.

1-007-0000

Jonás Fernández (S&D). – Hello, good afternoon, welcome Mr Donohoe, thank you very much for your time. First, as S&D coordinator in this Committee, I think that I need to share with you our ideas on the current escape clause of the Stability and Growth Pact. And I would like to share with you that our group thinks that, until we don't have any other rules in place – and I hope that in the next few months, you will start a debate on the revision of the Stability and Growth Pact – the current escape clause needs to be in place.

In any case, the question that I would like to ask you, is about the banking union, more concretely on the situation of the European deposit insurance scheme. Because, as you see this proposal, was covered by the European Commission four or five years ago and, until now, we were not able to move forward on this proposal.

So, I would like to say that my group is open to discuss an EBIT model, at least in the beginning of this new framework, but we've seen that in this EBIT model, the liquidity provision throughout the European deposit insurance scheme should go directly to the banking entities

and not through the national insurance scheme, because in that case we would not break the link between the banking risk and the sovereign risk.

In any case, in your role as President of the Eurogroup, I think that you have high responsibility to move forward this report in the Eurogroup and I would like to ask you about your ideas to move this proposal that is key, not only for the future of the banking union but also to relax the capital market union. Because, with 19 deposit markets, at the end of the day we will not be able to push a truly European capital markets union.

So please, what do you think, what do you expect, what plans do you have to move forward on EDIS? Thank you so much.

1-008-0000

Paschal Donohoe, *President of the Eurogroup*. – Thank you very much honourable Member for your questions and I look forward to engaging with you on the committee on these and other matters during my mandate as President of the Eurogroup.

To deal with the questions that you have put to me there on the banking union, and in particular to deal with your question regarding how we are looking to make progress. We are looking to make progress on this matter through a process that has now been agreed with the Eurogroup. We have a high-level working group in place in relation to all matters on banking union but with a particular focus on the issues that the Member has raised on the deposit insurance scheme and the different technical options that are there.

Our objective is not in our April meeting we will have an update on the work of that high-level working group with the potential for further discussion in May. Then, I will use that to inform the presentation that I will make to the Eurozone Summit in June regarding a time-bound plan for how we look to make progress on key elements of banking union.

So, we have a workstream under way, dealing with these matters, with particular timelines between April and June regarding when further updates will be given, both to us as ministers and then to our prime ministers and leaders in the eurozone summit.

The honourable Member, indeed, in his question to me, touched on many of the considerations that will be important in that work: how the issue of liquidity at times of resolution is dealt with; how we can ensure that banks and governments, if they are dealing with great moments of banking difficulty, that we have to right plans in place to ensure that those banks can continue to function without creating further risk for either consumers, for banking systems, or for governments.

The second point that the honourable Member touched on there was regarding the many different issues that are there for small banks, for big banks, for smaller Member States and bigger Member States, and to ensure that we have a compromise in place that may work for all.

And then thirdly, of course, what is the key example of this is an issue that this committee would be well aware of. If, regarding the issue of how capital can be available at for banks in all countries, for banks of all sizes, if we are dealing with particular challenges. And they are some of the themes that will be important in our work.

I'm not underestimating for a moment some of the great challenges that will be involved in trying to make progress, but I do believe progress can be made, and it's my job to work with all members of the Eurogroup to see if we can do that.

I believe we can and I will spare no effort in doing this. And as I said, honourable Member, the April-to-June period will be the next window for trying to clarify how we make further progress on these matters.

1-009-0000

Billy Kelleher (Renew). – Madam Chair, Minister, I wish you the very best of luck in your position as President of the Eurogroup. As said at the outset and maybe slightly repetitive, but I think it's critically important from our perspective here in terms of getting to know the political reality around the Eurogroup with regard to banking union.

There is no doubt, there's a lot of public indebtedness out there. Country deficits have risen dramatically because of the COVID-19 pandemic. And while we have the ECB still in a purchasing mode and underpinning the euro from that perspective and supporting asset-backed bonds, there is no doubt that at some stage in the future there could be concerns about Member States' ability to fund themselves. And also, if we do not have banking union by then, the sovereign doom loop, which could put some banks that are dependent on national sovereigns into serious difficulty.

So, from that perspective, President could I just ask: is there concern within the Eurogroup about the levels of public indebtedness and is there still genuine opposition to the mutualisation of risk? In other words, if we have countries that simply do not accept that a banking union is required to address the issues around the single resolution fund and then breaking that dependence of banks that are impaired on sovereigns and sovereigns becoming impaired as a consequence of that.

So, that would be an issue of genuine concern and something that we have listened to in debates for a long number of years around the fact that some countries are very insistent on not taking the mutualisation of risk into being and, therefore, delaying the European deposit insurance scheme and the further development of the banking union itself.

And you did outline that in the Eurogroup Summit on 11 December 2020 that you would put in place outstanding elements to complete the banking union – that would obviously be published in April, I hope.

Of course, you speak about macro-economics, Minister, but to citizens, of course, micro-economics are critically important as well in their everyday lives. You talk about the banking union, we talk about capital markets, we talk about access to finance and of course, there are great disparities across the European Union, and the eurozone in particular, with regard to interest rates. For example, in Greece and Ireland, interest rates of 2.79% and the eurozone average of 1.3%.

So, in that context, regarding banking union, is it not important to ensure that there is fairness and equity across the entire eurozone with regard to the single market and interest rates for consumers in all Member States?

1-010-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much for your questions and for the different issues that have been raised there by the honourable Member. I shall deal with each of them in turn.

In relation to the challenge of sustainability that was raised there by MEP Kelleher, there is recognition amongst all members of the Eurogroup regarding both challenges in relation to sustainability but, critically, agreement amongst the Eurogroup regarding what are the kind of measures that need to be taken to try to manage and respond back to those risks.

I would use as an example of this the initiative that the European Parliament is, of course, very familiar with, which is the Recovery and Resilience Facility (RRF), which at one of its most basic levels, is it about how risk can be shared to respond back to a grave challenge to economic and social sustainability. So, the RRF is a recognition by finance ministers and prime ministers of the need to manage risk in a different way to deal with the very issues that are being raised by MEP Kelleher.

And, in relation to his point regarding the views within the euro area on the progress of the banking union, as I was at pains to say, this is a very, very complex and very, very sensitive negotiation, and there are different perspectives on all of the themes that I have touched on. And if we can, and I believe we will, make progress in these areas, it will be through negotiation and through trying to find compromise.

But, if I could offer two additional points in relation to that. The first one is, is that the very fact that we reached agreement at the end of November on the role of the European Stability Mechanism in dealing with new challenges and then bringing forward the operation of that agreement, reflects the fact that, while there are differences of opinion, there is also a consensus regarding the need to ensure that our banks and our sovereigns have a strong architecture in place to dealing with the challenges of sustainability and our union that motivates all of us in our work today.

When we do engage again on many issues on the banking union as we move through the coming months there will again be recognition of differing views, but I'm confident from the engagement I've already had with finance minister colleagues that there are opportunities to make progress, which is what I would be looking to do.

Then in relation to the concluding point that was made by MEP Kelleher, in relation to macroeconomics and the microeconomic effects. Of course, I know what he is referring to there: the effects on the lives, on the living standards, on the future prospects of the people that we represent.

On the issue of interest rates and interest rate differences across the euro area, most particularly in Ireland: yes, I do believe as we make progress on banking union, more competition, more supply will be available. In particular, I note the impact that fintech, higher technology providers of services to consumers, that they will have on the choices that will be available to consumers and banking and financial service choices that they will make.

But, if I look at the disparity that the MEP is referring to, the most fundamental cause of that is the really long-term effect of the financial crisis that different countries have gone through, the level of capital that banks are required to hold to manage an anticipated higher level of risk and the effect that, in turn, has on the mortgage interest rates that the MEP referred to.

But it's also the case, as more lending happens at different interest rates, that the differential that the MEP is referring to is slowly narrowing. But it is taking time and one of the reasons why I'm committed to banking union is to provide a further catalyst to ensuring that consumers across the euro area have a greater choice of product available to them.

1-011-0000

Antonio Maria Rinaldi (ID). – President Donohoe, there can be no disputing the fact that the economic impact of the COVID-19 pandemic has created a shock whose damaging impact on the EU economy and duration is difficult to quantify.

In the spring of last year, the Commission itself suspended most of the rules on budgetary discipline, like the Stability and Growth Pact, as these were considered unsuitable and an

obstacle to implementing effective policies to support the economy in such a difficult period. This also sparked a debate within the EU as to whether it would be worthwhile rewriting all the complex rules and macro-economic bonds that have been the bedrock of economic governance and monetary cohesion since the times of Maastricht.

The idea of including, in Article 9 of the Regulation on the Recovery and Resilience Facility which is now being adopted, the self-same rules on budgetary discipline that have been suspended is therefore incomprehensible and paradoxical. Is it not, in your view, a massive mistake to tie in Member States who harness the RRF to the type of macro-economic conditionalities now being reviewed after being deemed obsolete and outmoded, as this could mean the plan as a whole not coming to full fruition?

1-012-0000

Paschal Donohoe, *President of the Eurogroup*. – I thank the Member for the question he has put to me. The issue of fiscal rules, the role of the Stability and Growth Pact and the discussion in relation to that are matters that sit with the Commission, with Commissioners Dombrovskis and Gentiloni. I know they're giving very serious consideration to the issues that have been raised in the debate regarding those rules.

I think it is absolutely the case that we do need rules. We need rules to ensure the proper functioning of a single currency area, but the future of those rules and the process in relation to them is a matter for the Commission. I know my colleague, Minister Leão, will be in front of this committee later on in the day and I'm sure he will have some observations and views for this committee regarding how he is looking to structure engagement in this debate through Ecofin.

From my role as President of the Eurogroup, where much of our focus will be on what the right budgetary policies are for the euro area, if and when a debate begins in relation to rules and some of decisions that will be taken by the Commission, I think it is absolutely imperative that we remember and focus in on what the policies are that we need. The starting point for that debate is all that we agree on, as opposed to the different areas of differing views that may well be there in the future. What we agree on is having the right policies in place to support employment, to support income when we're grappling with a pandemic and then working together regarding the future of those policies and providing, I hope, a good orientation for finance ministers in decisions that they will make in relation to 2021.

In relation to the specific question that was put to me by the honourable Member on conditionality, I would respectfully say that there is always conditionality in relation to access to funding and in relation to additional funding within the European Union and how that is to be used. From engaging with my colleagues and partners in the Commission on this matter, they're very much aware of the challenges that so many citizens face at the moment. The way they're approaching the base and negotiations in relation to those conditions is trying to agree policies that can stimulate growth, that can stimulate recovery, which in turn will be a further contribution to the European Union and our Union emerging from the economic consequences of COVID-19.

So, I would say to the committee that the issue of how we access funding and the conditionality for that funding is one that all countries are familiar with from accessing the European budget and other forms of funding. I know this matter will be dealt with carefully in the engagement that will take place between the Commission and national governments in the coming months.

1-013-0000

Chair. – Thank you very much. I recall, Mr Rinaldi, that we held intense negotiations with the Council on Article 9 of the RRF Regulation. The discussions with the Council and Commissioner Dombrovskis went on for weeks and even months, and sometimes throughout the night. It is a shame you were not present as it would have been the ideal place to discuss

this issue and for you to see perhaps, as the President has stressed, that these are the same provisions that are to be found in the Common Provisions Regulation.

1-014-0000

Antonio Maria Rinaldi (ID). – It was interesting to know what he thinks, though, seeing as he is the President of the Eurogroup.

1-015-0000

Chair. – We will nevertheless be able to return to this debate, as was quite rightly said, and will have many occasions to do so, so please don't worry about that.

1-016-0000

Sven Giegold (Verts/ALE). – President Donohoe, it's good to have the opportunity to exchange with each other here. You referred to the great challenges this new economic crisis poses to us. This is a crisis which didn't start in the economic or even financial system, it came as an outside factor, but nevertheless it is coming with high and important financial and economic consequences.

If we reflect upon the last years, one has to say that our progress in integrating the financial system and our economic models in the eurozone, and in the EU as a whole, was rather limited. On the other hand, after the big financial turmoil, starting 2007, we made really deep and big changes in the integration of the euro and its supervisory system, as well as in economic governance. We know why the progress was so slow: because some Member States always feared this, or wanted that, and were all thinking only within the small limits of their anxieties.

Therefore I ask you, as chair of the Eurogroup, isn't it the moment to use this crisis for an ambitious agenda to move forward in all the different dimensions which are holding us back? So this means basically completing the banking union, completing the capital markets union, rewriting the rules of growth and investment, in order to avoid new austerity and to have a better situation for future investment.

I think the world is changing. We cannot go on with narrow-minded nationalisms in the way we run the eurozone and therefore I think, President, we should not only look at banking union. We should now make one big move forward and take opportunity of this shared crisis, which we are all suffering from. But this needs leadership for such an ambitious agenda for a eurozone which is able to hold together more firmly, to be more able to shape its own destiny. What do you think about this?

1-017-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much for your views and for the questions that you have put to me. To deal with some of the different views that you offered there, the change in the architecture of the euro area since the great financial crisis is very significant and real. I would look at the new institutions that are in place, the ESM, the huge change in banking regulation, the new bodies and organisations involved in banking regulation and the effect that they are having in the regulation of European significant banks. That is before I go on to the scale of change that has been made from a budgetary perspective and the new imperatives that are in place for the coordination of efforts. So I think to infer that little has happened in the aftermath of the great financial crisis is to profoundly underestimate how much has changed from an institutional point of view, a regulatory point of view and a budgetary point of view. Huge change has happened since that period.

But to look to the future and to the analysis that the honourable Member offered, of course he is correct that we are dealing with a public health emergency that has profound economic consequences. COVID-19 did not originate because of policy choices made in relation to the regulation of economies, the running of economies, the running of businesses or banks. It is a disease that has profound economic consequences that we are now turning to and we are responding to.

But again, the scale of decisions that have been made across 2020 shows, I would suggest to the Member, the willingness of our Union and finance ministers and prime ministers and your Parliament to respond back to those challenges. The RRF, the kind of initiative that a year ago ... grants on the scale that is now being planned for and that will be happening, the way in which they are being funded, the way in which loans are being funded. Surely that is the very kind of response that you are calling for, and that is happening. The operation of the SURE Programme, the work that the Commission has done there, the difference that it's making in the funding of subsidy schemes for our citizens who need help with their income. Again, this is the kind of change that I think you're calling for, that is actually happening, that is making a difference.

So as we call for further change and as we call for further renewal, I think it's vital we anchor that in recognition of the change and the imagination that was shown economically by you, by our parliaments, and by leaders across the European Union in dealing with COVID-19, and not just a call for further change that needs to happen. Let's recognise what has happened and what we've delivered.

I am fortunately well aware of the responsibilities of leadership and the work that I have to do. I've demonstrated that by what I've already delivered on banking union and, with your encouragement and with your support, I'll continue to exercise that as we approach important decisions on budgetary policy and important decisions on banking union. But I would argue to the Member, let's recognise what has happened, what has changed economically within the European Union in 2020 and in the early weeks of 2021.

1-018-0000

Johan Van Overtveldt (ECR). – Thank you, Mr Donohoe, for being here with us. It's always good to see a former colleague again. I will not go into the points that have already been raised by colleagues before me on the growth and stability pact, on the debt accumulation and other pressing issues.

Two topics. First of all, the non-performing loans. we've seen recently the ECB talking about a huge jump in these non-performing loans within the European economy and the euro area. The IMF is also getting very nervous about this. Do you also see this as a pressing problem, and do you see a role for Eurogroup initiatives in this respect?

My second point is of course also related to the euro area, and there has been already a lot of talk about the banking union and what needs to be done there. But I think the capital markets union is at least as important as the banking union because we know from discussions within the Eurogroup that many of the tensions come from political sensitivities around, let's say, risk absorption and a well-functioning capital market would indeed promote more private risk absorption. Do you agree with that analysis? Although I know it is of course the responsibility of the Commission to work on this, would you launch Eurogroup initiatives or an initiative to stimulate this work on the capital markets union?

1-019-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much honourable Member, and it's also great to see a former colleague within the European Parliament and we're all very lucky Europe has a Member of the Parliament of your background and expertise, leading really important budgetary negotiations for the Parliament and good luck to you in your very important work in that area.

On the issue of non-performing loans, which the honourable Member raised with me, I do agree with some of the points that he made regarding the importance of this as a policy challenge for the Union and for the euro area in the coming period. This is indeed an issue that received a lot of focus under Minister's Leão's first Ecofin, which took place last week.

Three points that I would offer to the Member in the debate that is underway on this topic and in the work that we need to do in 2021. My first point is that I think the action plan on non-performing loans that was published by the European Commission is a very important ingredient in the work that we will need to do in handling the challenge of non-performing loans in the coming period. My second point is, however, the context for these non-performing loans and what this means for the policy choices that we need to make is really important and will require very careful reflection before we decide what is the right policy mix for the union, and for the euro area.

I'd highlight two points to the committee. The first point that I would make is the degree to which non-performing loans could potentially be concentrated in similar parts of the European economy, all of which employ many of our fellow citizens. The consequences of the acceleration of non-performing loans in hospitality and tourism, in our service sector, in aviation, what that will mean if the same pillars of our economies experience an acceleration in non-performing loan risks at the same time with those pillars of our economy, employing many millions of our fellow citizens. We need to reflect on what that will mean for the appropriate policy choices that we have to make in dealing with this matter.

Secondly, the challenge of the nexus of the bank guarantees that have put in place by many governments to support those really important pillars to their economy and how that will affect discussions and debates that we need to have there on non-performing loans in those particular areas.

It's a really important area in which we need to make choices and decisions on because I believe it is such an important effect on the nature and the speed of the recovery that we will be able to deliver for our fellow citizens in the years to come.

Of course the issue of timing is so important, continuing to do all we can to support citizens in honouring loans and paying them off while they're able to do so, and they go back to the point that I made in my opening contribution regarding the interconnectedness of budgetary choices and what that will mean for the issues that have been raised by the Member.

In relation to the point that he made on capital markets union, I very much agree with the analysis that he has put forward. We are looking at how we can continue to make progress on this area within the euro area, but I think it's important that I do recognise that these issues are EU-wide.

They do receive a lot of focus within Ecofin and, as the committee will be aware, our partners in our Commission have recently published an action plan regarding how they want make further progress on capital markets union, and we will of course prioritise euro area-wide dimensions of that action plan in the work that we will do during this year.

1-020-0000

Chris MacManus (The Left). – Thank you Chair. I want to take this opportunity to welcome the President and congratulate him on the role. It's one that's important and all the more so at this critical time.

I'd like to explore the President's vision for the coming years. We know from his motivation letter last June that he believes, and I quote, 'it will be important that we also agree a pathway back to the rules on state aid and the Stability and Growth Pact in the medium term'. More recently, in September, he is quoted as saying 'when the European economy has returned to growth, when we have emerged from this crisis, then we must carefully re-establish the fiscal buffers so we have the firepower and the capacity to meet future challenges'.

I am someone who accepts that the EU has stepped up during the crisis, but I also believe one of the best things that they have done is when they stepped back and put the fiscal rules on ice, and what's harder to locate is any comment from the President about a commitment to reform and the need to change the fiscal rules. Instead, he speaks of timing and the eventual return of the rules.

Therefore, my question is, President Donohoe, would you prefer us to return to the same old fiscal rules when COVID is behind us, because to me that's just not good enough. The debate on fiscal rules is happening now, and a conservative approach is a missed opportunity. Alternatively, is there a genuine desire amongst the Eurogroup that you lead to open up the debate about the type of economy that we need? For example, the need for Member States to invest in green infrastructure and social goods, like housing?

1-021-0000

Paschal Donohoe, *President of the Eurogroup*. – I want to thank the Member of Parliament for raising those very important issues with me.

In relation to the fiscal rules and their future, I do need to echo what I have said responding back to a fellow member of your committee: that the future and the debate in relation to fiscal rules is a matter which the Commission will have the initiative on and, as President of the Eurogroup, I will be working with them on that. But the future of those rules and how they will be dealing with some of the issues that have been raised there are matters that Commissioners Gentiloni and Dombrovskis will be taking the lead on, and I have to allow them to outline their thinking on those issues first.

In relation to the need for debate within the Eurogroup. Yes, there will be debate on budgetary policy within the Eurogroup and on the future of budgetary policy in the context of the changing circumstances of COVID-19. And there is a huge amount of debate on this, honourable Member, in relation to what is the right budgetary policy for the euro area. It does indeed entail a consideration of the issues that have been raised with you. How we can facilitate investment into a green future, how we can facilitate investment into having homes and the right number of homes for our citizens within Ireland and across the European Union.

And, while I will be recognising the institutional role of the Commission in fiscal rules and in debate around them, where I will be focusing my energy on is, what's the right budgetary policy for 2021 and for 2022. We have consensus for now. I believe we can, with a lot of engagement and a lot of work in the Eurogroup, put together a consensus regarding the next set of budgetary choices for the remainder of '21 and for 2022 and that's something that I'm going to be working very intensely on in the coming weeks and months.

I do believe, however, it's important that we do recognise the role in which having strong public finances, either at a national or a European level, how vital they are. One of the reasons why the euro area has been able to respond back in the way that it has is because the euro area deficits, euro area indebtedness, the implementation of the fiscal rules by different Member States created the capacity for dealing with this crisis when it hit us.

That fiscal framework, focused on having sustainable national finances, will be a vital ingredient regarding our sustainable future.

1-022-0000

Frances Fitzgerald (PPE). – Good afternoon and welcome, President, to the ECON Committee. I'm delighted to see you and wish you every success, continued success, in your role.

Two questions. One on climate investment. Last week, the EIB released its 2021 investment report, which showed that the gap between the EU's climate objectives and climate investment is growing – as a percentage it declined marginally from the percentage of GDP – and that trend may well continue in 2021. It also points to the European Commission's projections that investment in the EU's energy system will need to increase from an average of 1.3 to 2.8 of GDP over the next decade if we're to cut greenhouse gas emissions by 55% by 2030. My question is, in the current situation, given that information, do we need greater ambition when it comes to climate spending, both from a public and private sector perspective? Is that possible in the current situation?

A quick question on the national recovery plans, which I think are really important. I wanted to ask you, as President of the Eurogroup, will you be emphasising to Member States the importance of recovery plans that are inclusive? Because we know that there has been a gender differential in COVID and its impact. It would be very easy to put in the same old plans if you like, whereas we need plans that will be inclusive and respect equality and obviously also offer a green and digital future. So in terms of your own influence on the national recovery plans, I think in each Member State we need to hear a lot more about those national plans, and I wonder how they can be made really inclusive and really respecting the kind of goals that we want to pay attention to, coming out of this crisis.

1-023-0000

Paschal Donohoe, *President of the Eurogroup*. – To deal with the very important questions that the Member put to me there. Firstly, regarding whether there is a need for continued and more ambition in how we respond back to the grave challenge of climate change, I think the answer to that question is 'yes'. But I do believe that in really important policy decisions that have been taken recently we can see the evidence of that.

The report that was referred to, which we discussed last week in Ecofin, is a very important report. It did show our gaps, it did show our challenges, but what I was encouraged by is that in the same report it did show that from a patents point of view, the European Union is actually doing quite well in terms of its share of global patents in technologies that can make a difference to the challenges described by the Member in dealing with climate change. Our share of patents in new sustainable technologies is actually performing well in comparison to our global peers.

To pick out three areas in which I believe that ambition has been shown. Firstly, the requirement within the Recovery and Resilience Facility that 37% of all funding that's made available through the RRF be used to respond back to the challenge that was highlighted there by the Member of Parliament.

Secondly, the work that has been done by the European Commission on taxonomy. It has been able to classify different products from different parts of our financial and economic markets, according to the impact they have on the climate.

Thirdly, I think we can welcome the work that was announced by President Lagarde this morning, when she announced the creation of a new centre within the European Central Bank to look at how their mandates can be affected by climate change and what that means for policy decisions that they may make.

In relation to the final point that was raised by the Member, that recognition is there. The recognition is absolutely there from ministers of finance that when they are making decisions in relation to RRP's with their governments, with their prime ministers, that we need to be so aware of the challenge of inclusivity. We need to be aware of the fact that, as your Green colleague said earlier on, while the cause of this disease is biological, the effects of this on equality, on inclusiveness – and particularly, I would highlight, on younger women and men,

what this means for their careers and prospects – is so serious. This is a really important consideration in the plans that are being drawn up by national governments and in the debates that I heard on these topics in both the Eurogroup and Ecofin. The really important issues that have just been raised there are being given pre-eminent consideration by my colleagues at the moment.

1-024-0000

Pedro Marques (S&D). – Mr President, welcome to the ECON Committee. I would like to go deeper into the comment my coordinator made in the first intervention on the situation with the general escape clause. I wouldn't ask the President of the Eurogroup to comment on changing the fiscal rules since he doesn't want to talk about that, but the issue of the general escape clause was also put in that first intervention as regards the current situation of the European economy.

The European economy is still suffering the consequences of COVID. Several Member States have now started to put in place again new measures to deal with a third wave of the pandemic that will have an economic and fiscal impact. Uncertainty still lies ahead for 2021, not just because of the third wave of the pandemic but also because of the uncertainty on the logistics of the process of vaccination. At the same time, we need time to consolidate the decisions deriving from the agreement between Parliament and the Council in December on the RRF, on own resources, for sure, and we need to give time to the ECB for its monetary policy strategy review.

So, President of the Eurogroup, would you consider that, given that we have the economic, legal and political grounds to extend the general escape clause for one more year, giving us enough time to get a grip on the economy, and to discuss proper fiscal rules at the proper time, aren't we to take after this situation?

Coordination between fiscal and monetary, macroeconomic policy is completely possible under the current situation, as was done in 2020, but if we go now too far, too fast, we risk pushing the European economy into a steeper recession and a prolonged depression. So, how would the President of the Eurogroup respond to those that are already pushing for a return to old rules in such a different world?

1-025-0000

Paschal Donohoe, President of the Eurogroup. – I want to thank the Member of the committee for the questions that he has put to me. What I'm doing is recognising the contribution that I am making and my appearance in front of this committee, the different roles the different Members of the European Union have to play on these issues. There are many, many areas which I am responsible for, which I am responding back to your questions on.

On the issue of fiscal rules. This is a matter for the Commission to bring forward proposals on. As President of the Eurogroup, I can speak on those areas within which there is consensus within the Eurogroup on, and let's acknowledge the consensus that is there at the moment. The Eurogroup again and again in the public statements that either it has issued as the Eurogroup, or in the statements that I have made as President of the Eurogroup on behalf of my finance minister colleagues, has explicitly recognised the danger that was articulated by the Member at the end of his contribution.

We recognise the risks that are there for the too-rapid withdrawal of supports, what that will mean from an employment, income and social point of view, and in turn what that will mean for the ability of the euro area to recover.

So, while colleagues on this committee understandably want to put questions to me on the fiscal rules – and I know there will be an opportunity for them to put those questions to my Commission colleagues – could we not recognise those areas in which we have consensus and

agreement on? The areas in which we have agreement on are the current budgetary stance for the euro area, which was implemented in 2020 and is now being implemented in 2021.

That recognises the risks that have been raised there by different members of the committee in relation to too-sudden withdrawal of supports, how we need to be agile in the face of change in public health guidance and also recognises the debt sustainability issues that have been raised by other colleagues.

We are trying to get the balance right between those two anchors, and there is consensus within the Eurogroup at the moment on the current policies that are being implemented. When we begin our discussions on budgetary policy for 2021, we're beginning our discussion by recognising what we agree on, which is much.

1-026-0000

Chair. – Thank you very much. We have finished our list of speakers. Unfortunately we are running really late, so there is no time for catch the eye. I apologise, but we really had a lot of questions. I wish to thank again the President of the Eurogroup, Mr Donohoe, for his availability. As you can see there is strong interest and there is room for a lot of further cooperation between the two institutions. So we hope we will follow up soon on all these issues.

(The hearing closed at 15.11)