

1-001-0000

**COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
ECONOMIC DIALOGUE WITH PASCHAL DONOHOE,
PRESIDENT OF THE EUROGROUP**

**BRUSSELS
WEDNESDAY, 2 FEBRUARY 2022**

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The Economic Dialogue opened at 14.46)

1-003-0000

Chair. – Good afternoon, everybody. I welcome Paschal Donohoe, President of the Eurogroup, for this first economic dialogue with the members of the Committee on Economic and Monetary Affairs this year. The previous dialogue with the Eurogroup President took place on 21 June last year.

Today's exchange of views will cover the ongoing work programme of the Eurogroup and economic and fiscal policies to support the recovery and long-term growth, including discussions on the structural challenges the euro area economy is facing after the pandemic, lessons learned from Europe's comprehensive economic policy response and the EU's economic governance framework for the smooth functioning of the European Monetary Union, the strengthening of the banking union, the euro as a digital currency and the international role of the euro.

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 for 10 minutes, followed by five-minute question and answer slots with the possibility of a follow-up question, time permitting, within the same slot. As you know, normally we have two minutes maximum for the question and three minutes maximum for the answer.

For the first round of questions, each political group will have one slot and thereafter we will apply the D'Hondt System. If we have time, there will be some catch-the-eye questions. I really ask you all to strictly respect the time given to you.

I would again like to thank Mr Donohoe, and I now give him the floor for 10 minutes.

1-004-0000

Paschal Donohoe, President of Eurogroup. – Thank you very much Chair, and good afternoon to all the members of the ECON Committee of the European Parliament. I want to begin by thanking you all for the invitation to say a few words in this economic dialogue. I want to congratulate you, Madame Chair, on your recent re-election and wish you every success in your role coordinating and leading the ECON Committee and to say I also look forward to welcoming you to our Eurogroup meeting that will take place in Paris later this month.

In my introductory remarks I will, as usual, report on the Eurogroup's activities and on our policy priorities. Let me say a few words about the economic situation. The outlook for the euro area remains favourable. Our data and our forecasts tell us that the economic recovery is continuing, although there has been some loss of momentum. Nonetheless, our prospects for this year and for 2023 remain robust. The labour market also continues to improve with

unemployment at its lowest level ever. This is good news, but we need to recognise that there are headwinds and that we have to navigate our way through the time ahead amidst levels of uncertainty that continue to be high.

Notwithstanding the fact that our economies have become increasingly successful in adjusting to the pandemic, the resurgence of infections, and the reduction in the ability of our citizens to move freely since late autumn weigh down on growth.

Of course, we all hope that with the Omicron variant the coronavirus is finally transitioning from a pandemic to an endemic state. But there have been surprises before, negative surprises, so we have to remain ever vigilant and give ourselves agility and flexibility in how we respond.

When we talk about the economic situation, let's also acknowledge where we are with inflation, which has been increasing markedly since the middle of last year. It goes without saying that assessing the inflation outlook for the euro area is a critical task for the European Central Bank, and it does so with full independence. Nevertheless, the change in inflation, the upswing, is affecting growth and is affecting the purchasing power of our citizens. It's something, therefore, that Finance Ministers are naturally concerned about, which is why the Eurogroup is monitoring these developments closely.

The narrative on inflation has also changed somewhat, as factors that have been driving prices up are now taking longer to dissipate than was expected. We focused primarily about where we are with the price of energy, but we also acknowledge that strong levels of demand, supply bottlenecks and technical issues do play a role in where we now stand.

Meanwhile, inflation is affecting the price of goods and services. However, as the ECB has been pointing out, there are, so far, no signs of significant second-round effects stemming from wage increases, and inflation is expected to start decreasing this year and to drop below the ECB's target of 2% in 2023.

Monetary policy can't solve supply constraints, but we can be confident that the ECB will, as before, do what is necessary to deliver against its price stability mandate.

Member States, for their part, are taking or exploring measures to protect households and businesses from the negative impact of high energy prices. This is something we have to factor into our economic analysis, and geopolitical tensions and issues of course have to be recognised.

So this takes me to the policy mix – a topic that is critical in the work of the Eurogroup. By now, I think it is widely recognised that the euro area policy response has been sizable, it's been timely, it's been well-coordinated and, I believe, we've got the size about right.

Member States and European institutions, individually and collectively, have successfully reduced the impact of this disease on jobs and incomes. Looking ahead, we have to pursue a policy mix that supports the recovery, promotes investment, and safeguards the sustainability of debt. These objectives are mutually compatible, but we do need to get the balance right.

So when the Eurogroup discussed the euro area's Member States' draft budget plans for 2022 last December, we agreed with the Commission that fiscal policy should now be moderately supportive but should also remain agile for the year ahead. There was consensus that measures should pivot to become more targeted and specific to vulnerable groups and to viable firms. We are also conscious of the need to raise levels of investment within the euro area. So, therefore, we have to make maximum use of the unique opportunity that is the RRF. It's critical for our Green and Digital Transitions. After all of the effort in the Parliament, amongst ministers and governments, that went into agreeing this initiative, we now have to focus squarely on

implementation. I hope the Eurogroup will contribute to this through our thematic discussions, which follow both euro-area recommendations as well as country-specific recommendations.

So as we look to 2023, it's going to be very important that European institutions develop a common understanding of what fiscal strategy for 2023 should be. The crisis has shown the value of coordination. In March, we'll have our first exchange of views on this, and it's good to have this debate early on, as Member States need guidance for their national budgetary plans. I can't prejudge the Eurogroup discussion, but I can say certain things, I believe, with confidence.

First, it is reasonable to assume that the level of fiscal support for next year will be lower than it is now. This makes sense when the recovery is at a more advanced stage.

Second, as the Commission observed in spring last year, country-specific circumstances will be taken into account, and then finally we do need to avoid cliff-edge effects from abrupt or very excessive changes in budgetary plans. Needless to say, we listen carefully to the advice and analysis of the Commission and the ECB.

On the future of economic governance, the Eurogroup is indeed an active stakeholder, we are contributing to the debate. But we are focusing our discussions on the euro area dimension of economic governance, particularly with regard to the 'two-pack' legislation and the enforcement mechanisms embedded in the 'six-pack'. I'm sure the Commission will make good use of our discussions on those areas.

Conscious of time, just let me touch briefly on two other things: first, with regard to the digital euro, the Eurogroup is continuing to engage on this topic. We recognise that this is a project could unlock significant benefits for firms, for employers, for citizens. It would provide them with easier access to a low risk and to a cost-free digital means of payment – digital sovereign money issued by the ECB. We fully support the work of our Central Bank and the Commission on the digital euro. This work does touch on several issues that go beyond the monetary realm, so it is important that Member States and the European Parliament are closely involved. In the Eurogroup we are holding a series of dedicated discussions on specific aspects including, first, data privacy and secondly, the implications for the financial landscape and the use of cash.

This brings me to my last point, on banking union. We put an awful lot of work into this project last year. We did make good progress but we didn't reach agreement. There is, however, a window of opportunity – both economically and politically – to make further headway and the Eurogroup is committed to this project and realises what the costs of inaction are and the benefits of completion of this project.

So, we will be returning to this area very soon. At this point, Madam Chair, I'll bring my contribution to a close and look forward to the questions and the comments from your committee.

1-005-0000

Chair. – Thank you very much. Now, before giving the floor to the speakers for the questions, let me just remind Members that interpretation facilities are available today in German, English, French, Italian, Greek, Spanish, Portuguese and Polish.

So now we start with our first question, from Markus Ferber for the EPP.

1-006-0000

Markus Ferber (PPE). – Madam Chair, I'll test the German interpretation straightaway then. I hope, Paschal, that you will get everything translated perfectly into English or Gaelic. First of

all, on behalf of the EPP Group, welcome! I am pleased that we can continue discussions with the President of the Eurogroup.

(Interruption – he continues in English)

If the interpretation isn't working, I will try in my rare English.

For us in the EPP, it's a pleasure to have this exchange of views with you, Paschal. I will start with my first question, on the banking union. The Eurogroup summit in December formulated the aim of finalising the banking union, and the Eurogroup was asked to do some preparation work and to organise a plan with some dates, steps and milestones to achieve that.

Under the Portuguese Presidency, you already had the first trials to achieve something like that. So I would be very interested in which elements are most important for you in your work and what the time frame is for what you are going to achieve and what a landing zone could look like?

Secondly, on the Stability and Growth Pact, at the last meeting of the Eurogroup there was an orientation debate on this issue, and I heard that you prepared a questionnaire, which was distributed. But in the end, at your press conference, nothing clear was mentioned about that. So I would be very happy if we could get some insights on how the discussion of the reform of Stability and Growth Pact is going in the Eurogroup.

I hope you've got my questions now, with my rare English.

1-008-0000

Paschal Donohoe, *President of Eurogroup*. – I want to thank the Member of Parliament, Mr Ferber, for his question and for the important matters that he has raised with me.

I will begin with where we are with the banking union project and where that stands at the moment. It is one of these projects, as the Member of Parliament knows, in which there are many different workstreams that are important to different Member States of the European Union.

The different issues that will be considered again by the Eurogroup relate to where we are with the status and development of cross-border financial integration – financial integration that would take place by the development of banks that would be able to trade, that would be able to accept deposits across the European Union – but that that would not be at the expense of the kind of financial stability and consumer protection concerns that are important to many Member States.

There is where we stand with the measures that would need to be put in place to deal with the needs that banks would have if they found themselves in an acute phase of crisis in the future, were that to happen.

There is the debate that is underway regarding the feasibility and the possibility of the development of a Europe-wide deposit insurance scheme. Then there is the final debate regarding how we can better understand, monitor and, in an appropriate way, reduce the level of risk within our banking system and in the relationship between banks and the sovereign debt markets. So these are themes that are well known to this committee and to analysts of the banking union.

In terms of moving it forward, it is my judgement that to move forward in any way is something that requires a commitment to all of the different workstreams of banking union, and for

movement at all on the project, it has to be movement across all of the different pillars of the banking union project.

I will now be engaged in consultations with individual Member State governments across the coming weeks, and I do hope to be in a position as we move into April, May and June that we can have more substantive discussions on this project within the Eurogroup, with a view to reaching agreement on a new work plan in 2022.

While this will be a very, very demanding project, I am convinced that the benefits have never been clearer and the costs of not reaching agreement have rarely been more visible too. So I'll be working with all of my colleagues in relation to that.

Then on the economic governance debate and on fiscal rules, there are many differing views in relation to the future of those rules within the Eurogroup. If I was to look at the debate that we had on the euro area dimensions of it in the Eurogroup in December, a quick summary of the issues there would be that many governments did accept that the procedures that we have in place for draft budgetary plans and indeed economic surveillance are in many cases processes that are working appropriately, are understood, but maybe could be simplified or clarified in the future.

There was less consensus in relation to issues such as a common fiscal capacity and what role that could play in the euro area, and also less consensus, at this point, regarding some of the more general issues within the governance debate – for example, in relation to what are the trade-offs in relation to investment and debt sustainability.

But we are at an early phase in that debate and I am confident that the European Union, the Eurogroup and Ministers – and I hope indeed the Parliament – will be able to reach agreement on these issues at the right point. I think the overall process has been handled very well by the Commission, by Commissioner Gentiloni, and I'm confident that we will be able to reach a consensus on compromise on these matters in the coming months.

1-009-0000

Caroline Nagtegaal (Renew). – Thank you so much, Mr Donohoe, for your introduction. In fact, I have to be honest, I'm highly concerned about the combination of high and increasing levels of inflation and a Central Bank that refuses to normalise its monetary policy. On top of that, many European governments are planning massive investments to facilitate the Green transition and the Digital transition and let our national debt levels increase far beyond the norms we have agreed upon.

So I was wondering, do you share my concern that this could in a way add fuel to the fire of inflation? What can be done to curb inflation from your fiscal point of view? I very much look forward to your answer.

1-010-0000

Paschal Donohoe, President of Eurogroup. – Thank you to the Member of Parliament for that question on a very important subject. I do take a different view to the honourable Member on the economic situation and where we currently stand.

First, if I look at where we are with the inflation forecast, while I do accept that, even as recently as today, we are continuing to see inflation levels that are higher for longer, I also do accept the analysis that has been brought forward by our institutions, that over time we will see these inflation levels begin to moderate.

I believe we'll see those inflation levels begin to moderate for a number of reasons. The first one is the effect of high levels of savings within the euro area economy and the effect that it's having on consumption levels. I do expect that to moderate as we move through 2022, and I

also expect to see supply chains continue to improve in their efficiency and to respond back to higher levels of demand as we put the more difficult phases of the pandemic, I hope, behind us.

But in terms of responding back to the current inflation mix and what that means for policy decisions that we will need to make – first, I think it is important to put this inflation debate into the context of where we are with a broader set of economic indicators. If you look at where we stand now with employment within the euro area – one of the lowest levels of unemployment that we've had in the history of the euro area – this is a remarkable policy achievement in the context of the extreme economic shock that we had to manage, due to the impact of the pandemic on our lives and on our economies.

So while we clearly do have an issue that we need to monitor and respond to, with rising levels of prices, if you look at where we are with unemployment, if you look at where we are with output, if you look at where we are with growth, there's much in where we stand today that is due to the fact that the policy mix and the policy decisions we've had over the last two years have, I believe, been the right ones.

To respond therefore to the Member's question there regarding the future and regarding how we respond to this, I think there are two elements to it. The first one is the monetary policy response from the ECB, and as I made clear at the very start of my contribution, the independence of the ECB and their ability to set monetary policy are clearly recognised by me.

However, I think it is fair to say that the ECB, in the decisions that they have made, for example, in relation to their emergency asset purchase programmes, and the changes they are going to make in financial market interventions across 2022, show that they recognise that as the economic situation begins to stabilise and recover, their role in that recovery will begin to change and, governing council by governing council, they will review where they stand.

But I do think they have already taken a large degree of action to respond to an economic situation that is improving, and they can review where they stand at each meeting.

Secondly, from a fiscal policy point of view, even in the statement that I made here, I did make the point that our fiscal stance has now moved to be moderately supportive for 2022, and I expect to see falling deficits in 2022 within the euro area, which is a recognition from finance ministers that the economic recovery is more robust. We accept that demand is at a more developed level than we would have anticipated a year ago, and therefore our budgetary stance is changing to reflect that.

So I would make the case that actions are being taken to recognise where we are viewed from the inflationary prospects that are there at the moment, but we have a recovery that we still need to nurture, need to look after, following a dreadfully hard and very demanding year-and-a-half to two years. I do believe this is a balance that, with our shared efforts, we will be able to maintain. But it is an environment that is changing and that's why the Member's question is so important.

1-011-0000

Aurore Lalucq (S&D). – Madam Chair, dear President of the Eurogroup, thank you for being here with us today.

I have a few macroeconomic questions, as you can imagine. The first one is on the level of investment. I keep hearing that the macroeconomic situation is improving; however, for decades it has been the same story at the European level: low investment, low investment, low investment. This means that the modus operandi doesn't work. At some point, beyond ideological questions, we have to do macroeconomics, and there is a problem: it doesn't work.

On a different subject, moreover, I was rereading the reports of the European Investment Bank, which showed that investment was performing with relative mediocrity in certain areas, particularly research and development. And even a McKinsey-type institution – and these are not leftists – said that we should invest much more quickly in the green transition and that 60% of investment would not be profitable and should be public. So how far have discussions progressed in this area? In fact, at some point, will we also go back to true macroeconomics and exercise a little less ideology? I would like your opinion on the subject.

And since there's only a short step from budget to taxation, what can you say about tax issues? We work quite well in the European Parliament and the European Commission, especially on the reform of the Code of Conduct, and every time, it is the Member States that block matters. What we're actually doing is stealing money from each other instead of showing solidarity. I would thus like to know if you are also talking about this within the Eurogroup. And will we at some point have a strong list of tax havens, knowing that this poses not only economic but also democratic problems, because our citizens tell us that there are two tax systems: one for those who can afford to pay tax lawyers, and another for those who can't.

Since we were talking about inflation, and since you are also very much in touch with the European Central Bank, and since, in any case, energy price inflation cannot be resolved by changing the interest rate, are you discussing the possibility of greening, of refinancing, and in particular of greening collateral with the European Central Bank, but also among yourselves,?

I have been very long, thank you very much.

1-012-0000

Paschal Donohoe, *President of Eurogroup*. – I thank the Member of Parliament for the series of questions she has put to me. Just to deal with each of them in turn, I will begin with the point in relation to investment levels, and I do think the Member of Parliament is making an important point there. If you look at private and public sector levels of investment within our economies in the aftermath of the global financial crisis from many countries, they never recovered back to where they were before the crisis.

My personal view is that whilst a contribution to meeting many of the economic and social challenges we have faced in recent years regarding, for example, the supply of housing and, for example, in regard to the challenges that have only grown with regard to how we decarbonise our economies, it is also an important element, if not a vital element, in the standing of the European Union and the world stage.

The recent investment report from the EIB I think developed some very clear insights into levels of investment in important technologies within the European Union and how that stands and compares against other very globally significant economies.

So having recognised the point made by the Member of Parliament, the issue then is what we do about this. This is, I believe, where the Recovery Fund is so important. It is also why we continue to talk about a budgetary stance which, even with growth that is now stronger than we would have expected a year ago, it is still supportive, albeit moderately supportive.

So what I believe we would be working to do in 2022 and in 2023 is to maintain a focus on higher levels of public capital investment and private capital formation within our economies to ensure that we move towards the two transitions that the Member referred to in her question to me – a lower carbon and higher digital future. I do agree with much of the analysis that she has just offered in relation to that.

In relation to where we are with coordination within the euro area, this is indeed a concept that is discussed at our monthly meetings. It is fair to say that there are differing views in relation to the level of coordination that we need and the trade-off between national priorities and the common objectives which we're trying to deliver. But that being said, as I approach my fifth year in the Eurogroup and ECOFIN, there is definitely a far higher level of appreciation regarding the value of consensus and a common approach to the budgetary choices that we make. I think this will be an important element in the discussions that we will have regarding 2023.

In relation to the tax matters that were touched on, these are not the remit of Eurogroup; they are decisions for ECOFIN. But very briefly, in my role as Minister for Finance for Ireland, I would acknowledge the big progress that has been made in the OECD on this topic, the very important anti-tax-avoidance directives that have been implemented by all Member States due to the work of the Commission and the progress that I believe we can make on the Directive on a minimum effective tax rate that has been brought forward by Commissioner Gentiloni.

Then, in relation to inflation, I covered that a little bit when your colleague put that question to me earlier on a similar topic. But the Member of Parliament did raise a point regarding the green choices that we could make with regard to this. I certainly believe it is very important that in our efforts to respond back to the pricing pressures of today and the energy pressures of today, this does not jeopardise our focus on decarbonising our economy and increasing the role of renewable technologies in the provision of energy. But this is difficult because the pressures are great at the moment.

So the Member raised a lot of different questions with me, but I've tried to briefly give an answer to each of them.

1-013-0000

Rasmus Andresen (Verts/ALE). – Dear Minister, I would like to draw your attention to another important topic: housing prices are on an upward trend since a long time, and it seems to be accelerating in the EU, as, according to Eurostat, housing prices increased by more than 7% in the second quarter of last year. So we very warmly welcome that you included housing market developments in your work programme.

Last week, we Greens published a study showing that financialisation is, besides for example higher construction costs, one of the key drivers for this increase on the housing markets. According to the European Central Bank, real estate funds in the euro area have grown by 286% since 2010.

So my question is, how do you intend to tackle this issue in the coming months? How would you steer public and private investment towards sustainable and social housing while preventing the build-up of the housing bubble?

More concretely, would you support treating housing as a special asset class within the social taxonomy plans of the European Commission? Would you support an extended macro-prudential mandate for the European Central Bank to react to housing price inflation through tighter but socially-based regulation of mortgage lending as, for example, Sweden and New Zealand are already trying to do?

1-014-0000

Paschal Donohoe, President of Eurogroup. – Thank you for your set of questions and also for your recognition that the Eurogroup has – for the first time in its history, I think, and definitely in its recent history – decided to discuss housing market developments as an important agenda topic in our Eurogroup meetings. We'll be doing that in the second quarter of this year.

We made the decision to have this discussion in recognition of the pressures which the increasing cost of homes and increasing rent levels are having on the standard of living of the citizens that we all serve and represent.

In terms of the very specific questions that the Member put to me: firstly, in relation to the role of investment funds and the role of private sector capital in our housing markets, again, this is something that would be outside my mandate as President of the Eurogroup. But I do expect it is something that will be discussed within the Eurogroup as we'll point to the different challenges that we have within our countries. Certainly, from the perspective of Ireland, our strong view and the strong view of this government is that we need to look at the role of all forms of capital in delivering the housing supply that we need. So as we look at the role of the private sector in delivering homes, this needs to be accompanied by a strong public sector and strong Member States and governments, building homes in conjunction with the private sector, in order to deal with the need for the supply of the right levels of social and public housing, and also to put in place the interventions in relation to affordable housing and affordable rent levels – both for the benefits of those who are in those homes for the years to come, and also to have an effect on the levels of pricing and the levels of rent within markets more generally. I know that this is a debate that is being played out across many different governments at the moment.

In relation to the question that you put to me regarding the role of the ECB in this area, the ECB's role is laid out now by the Statute, by our Treaties, and it is really important – as I have done on a number of occasions here in these hearings – to recognise their mandate and to recognise their independence in the decisions that they make.

But, if I look for example – again, maybe just with a national perspective – at where we are in Ireland, the Irish Central Bank, operating within the euro area, does have macro-prudential rules in place that recognise some of the particular characteristics of the Irish housing market. It does so within the framework of the ECB, and I'm sure that central banks, country-by-country, as they look at developments within their housing markets, do have the capacity to put in place the regulatory decisions that they believe are appropriate.

In relation to your question regarding the status of housing as a special asset class and its role in a taxonomy in the future, I'm afraid those are matters that are well outside my mandate within the Eurogroup. So I don't think it's appropriate for me to comment on them when we haven't even got to the point of discussing those issues within ECOFIN yet. But of course I'd give them consideration if they do appear on our agenda, because I do realise how central issues of housing are to meeting the social needs of our citizens and also to delivering sustainable economic growth and avoiding the house price risks that the Member referred to in his question to me.

1-015-0000

France Jamet (ID). Madam Chair, Minister, I cannot share your optimism or your confidence in the recovery, as in the case of unemployment or the cost of living, when the major economies throughout the world are recovering and the euro zone is still lagging behind. We see things quite differently.

Firstly, because we cannot pat ourselves on the back about an increase in GDP of 5.2% in 2021 when it shrank by 6.3% in 2020. Secondly, because the debt issued and the "whatever it takes" strategy will neither mask nor prevent the crisis that is unfortunately looming. Lastly, nothing is being done to prevent the proliferation of zombie companies that seriously jeopardise the economic stability of our eurozone.

Mr Minister, the excessive belief in the stability of the banking system is problematic. We are currently seeing this with Société Générale, a systemic bank if ever there was one, which could be seriously undermined by the European Union's stance on the Ukrainian affair. To avoid this,

we should already be engaged in a policy of risk deconcentration, which is not currently possible within the framework of the Banking Union. Lastly, in order to return to stable growth, it will inevitably be necessary to reintroduce competition into the banking system and increase its solvency. Lastly we will have to take the necessary measures to remedy the reality that you do not seem to perceive, i.e. the widespread instability of the economy. Otherwise, we would be at risk of a never-ending series of bubbles, whose first victims will be the peoples of the nations of Europe. So I would like to know what you think, what your point of view is, since this is an exchange of views.

Finally, if I have a few seconds left for a last question: Since you have just mentioned the guarantee on deposits with these systemic banks, how can you effectively reconcile this desire with the size of these banks, which would force us to make astronomical provisions?

1-016-0000

Paschal Donohoe, *President of Eurogroup*. – Thank you very much for this question. My judgement regarding where we stand at the moment is, as I said earlier on, that I acknowledge the risks that we faced earlier on, I acknowledge the risks that we face with inflation, and I acknowledge the issues that we face due to developments that could take place with regard to security within Europe. My opening statement did take account of some of the issues that the Member touched on.

But regarding my overall tone on where we are at the moment, I do think we need to make the case for where we stand now versus where we could have stood when this pandemic hit Europe just over two years ago. I do think we need to make the case for the fact that our efforts have played a very strong role in leading to a faster and different recovery to where we were a decade ago.

I've no doubt at all that if I was in front of this committee today and we were in a prolonged recession in the aftermath of a health crisis, you'd be equally critical of that and asking why we didn't take the actions to avoid that happening. Two figures that I think are relevant to where we stand at the moment are 8 and 29. Twenty-nine is the number of quarters it took us to recover to pre-crisis levels of output in the aftermath of the global financial crisis, and eight is the number of quarters that it has taken us to recover to the same levels of output after this crisis.

So making the case for what we have achieved is not the same thing as being immune to the risks that I acknowledged at the start of my contribution.

That being said, if I look at where we are now and the specific issues that the Member of Parliament raised, firstly, I do believe that our regulations at national and European level are forensically performing their duties with regard to the level of risk that we have within our banking sector. But it is because of the efforts that we have put in place with our budgetary responses that we have avoided many employers becoming very viable for support, very quickly.

Now I do accept the point that the Member of Parliament has made that there may be some employers who may find their viability reduced or compromised in the coming period, though I don't like the phrase 'zombie employers'. These are companies that have people working in them that have come through a very hard time, with citizens in them, that we all want to see find new work if their companies can no longer trade at the level they were trading at, or have to cease trading.

But we do recognise the risk of continuing to maintain levels of employment in sectors that might not be viable into the future due to maintaining the levels of budgetary support at the very high crisis level. But again, it is in recognition of this that the Eurogroup is now talking

about a moderately supportive fiscal stance for 2022. We are now agreed on moving away from general levels of support to sector-specific levels of support and then, at the right time, beginning to reduce those as well. So we are aware of that risk and we are seeking to manage that through adjusting the level of budget support as we move through 2022.

Finally, in relation to how we could facilitate more competition and some of the risks that could be there due to the development of Europe-wide deposit insurance schemes, if I look at the first question that Mr Ferber put to me regarding any development in relation to common deposit insurance schemes, of course many countries will want assurances that we're continuing to manage risk in a careful way and that is why we refer to many different workstreams within the banking union. Then the need for more competition is also recognised in the workstream on cross-border financial integration, which is about trying to encourage European banks of scale. But of course, at the same time, countries want assurances that if we are developing banks of scale and developing the ability of banks to move deposits, to move capital, to move liquidity across borders in a freer way, that it also takes account of financial stability and consumer protection issues within individual countries.

So the Member put a lot of different questions to me and I have tried to answer all of them. We are very much aware of the risks that we face, but I do think we should make the case for other risks that our efforts have avoided over the last two years.

1-017-0000

Johan Van Overtveldt (ECR). – Mr Donohoe, dear Paschal, it is always good to see you again, and in good health. I have three questions.

First a general remark. If you say we now have low unemployment, which is right and we also have higher inflation, that is, for me, a textbook case of being in need of more restrictive monetary and fiscal policies. That's standard textbook.

Now related to that, when you say fiscal policy should be moderately supportive, what exactly do you mean by that? Does that mean that it is preferable to have a budget deficit that is in excess of a structural deficit of 3% or not?

The second element relates to the higher inflation and, more specifically, the more divergent inflation within the euro area. My own country is at 8%, France is at 2.5%. Hence, we will see divergence in the international competitiveness of the Member States of the euro area. We've seen in the past the misery that comes about when you have that kind of development. Do you think we are prepared to deal with this divergence in the competitive capacity of the Member States? Aren't we focusing too much on spending and not enough on reforms to become more resilient?

My third question is with respect to what you said earlier on the banking union. You said, and I quote, 'The costs are now higher of not having a banking union than ever.' I was wondering whether you could be more specific on that because it seems to me a little bit of a mysterious claim by you.

1-018-0000

Paschal Donohoe, President of Eurogroup. – Mr Van Overtveldt, great to see you, and thank you very much for your excellent questions to me.

So firstly, if I begin with your question in relation to what exactly I mean by a moderately supportive fiscal stance, in general it would mean deficits that are approaching the structural deficits that countries would have within their economies. But I don't believe that the gap between both would be closed within a single budget cycle. I think, depending on the economic circumstances of each country, there may be a different pace with which their current nominal

deficit moves to their structural deficit. In general, I expect to see deficits fall and I expect them to be closer to the structural deficits within Member States, but the speed of that could vary country by country. When we, for example, are meeting again, maybe this time next year, or when we're reviewing where we are for 2023 later on this year, I'd expect to see general deficit levels that are lower than where we are this year, and I'd expect to see those deficits being used to fund sectoral schemes as opposed to general schemes of support. I would expect to see those sectoral schemes themselves also beginning to diminish over time, as I hope we see a recovery that continues into all of this year.

In relation to your question on divergences between Member States' economies, this is a very simple question, but as with the most simple of questions it's the one that's difficult to answer quickly because it cuts to the heart of really important issues within our economy. So just two brief thoughts in relation to how your issue would be managed.

First, I do think we will see fiscal policy continue to play an even more important role in the next phase of this economic cycle. You will understand better than I will that, because we have a common monetary policy for the entire euro area, as business cycles change in individual Member States, I would expect to see the fiscal policies within individual Member States being more responsive to that. So if you have quicker economic recovery in some countries than others, you'll begin to see a change in the fiscal pulse in response to that, Member State by Member State.

The second quick answer to your question is, of course, why the recovery fund matters so much if we're trying to invest in those parts of our economies that we believe over the medium-term reduce the risk of the divergence within the euro area. If I look at the plans that are being brought forward by Member States that are in the early phase of execution, at the heart of it I think are two things: how we reduce the risk of divergence within the European Union and how we have national plans that invest in specific needs that countries have to give their citizens a better future – but to do this in a way that is European so that we can all benefit from the changes that happen in economies and reduce any risks of accelerating divergences.

Then, finally, is the discussion too much about spending and not enough about reform? The Member will be aware, from his tenure as Minister for Finance for Belgium, of just how much dialogue and engagement you have with the Commission in relation to semesters, in relation to country-specific recommendations. You will remember that very well, and I can assure you that from the engagement that we're all having government-by-government with the Commission, there continues to be a very high level of focus on reform. I have no doubt at all that as we evaluate the execution of recovery plans, it won't just be about how you were doing with spending money, it will equally be about how you are doing in delivering reforms. I'm confident there will be a high level of focus on that as we move into the implementation of the Recovery Fund.

1-019-0000

Chris MacManus (The Left). – Good afternoon and welcome, Minister. As you are no doubt aware, we are in the middle of quite an important economic debate for the future of Europe: the debate on how we reform the fiscal rules. It seems an awful lot of common sense is being discussed, and most commentators and governments are coming to the conclusion that the rules are in need of reform, and you won't be surprised – and from my point of view, it's clear – that these reforms need to be very radical and deep.

One of the most important issues is whether there should be a so-called golden rule of some sort under which some expenditures are exempted or treated benignly for the purposes of the rules. Given the extent of the transformation needed in the face of climate change, this is beyond doubt necessary as a very bare minimum reform.

So my question is whether you're on the side – and whether the Eurogroup is on the side – of those who fear opening up such a mechanism and who want to strictly limit it to only climate spending and investment? As you very much know, we're a country that's in the midst of a housing crisis. Do you agree that sound long-term investment in socially necessary infrastructure like housing for people, must be exempt from any new set of arbitrary fiscal targets? Isn't it a government's obligation to tackle crises, like the housing one in Ireland, as more important and a better use of resources than sticking to limits drawn up under a one-size-fits-all basis?

1-020-0000

Paschal Donohoe, President of Eurogroup. – Thank you for your very important question, which does have a national dimension to it.

So I will deal with the Eurogroup, a relevant part of your question, first: firstly, the Eurogroup itself has not yet reached a consensus on this matter, but it's important to say that the most likely way in which a consensus will be reached on this is within ECOFIN, because the particular issue that you're referring to includes non-euro countries as well. So this is a discussion that will continue amongst Member States of all countries, euro or non-euro. But it is a debate that of course we're aware of and we do contribute to within the Eurogroup itself. That consensus is not yet there. I mean, we're all contributing on these matters and bringing forward our views. I do think your question, though, does highlight some of the challenges that are there in this particular debate, because even in the question that the Member of the European Parliament put to me, it starts off with an exemption from the fiscal rules for investment in programmes that could lead to a lower carbon future. Then, as he was developing the question put to me, the exemption areas grew as his question developed. This is one of the issues that is raised in the debate, that if you begin with an exemption for some forms of capital investment, where does that exemption end? How can you delineate very clearly between some forms of capital expenditure and others? Clearly, some countries do have a concern that once you begin to exempt one area of capital investment, of current expenditure, from the fiscal rules, then the pressure grows to accept more and more.

I think why this is an important debate that is underway at the moment, is that the only source of limitation to this borrowing is not just the financial rules, it's also the debt sustainability of individual countries and the reaction of financial markets to increasing levels of debt in the future. The limitations and constraints that we have on levels of borrowing are not just the legal decisions that we make and the future of the economic governance structure, it's also the willingness of financial markets to lend that money to the euro area and to countries – and, of course, the price at which they will attribute to their higher levels of borrowing and what that will mean for countries' abilities to manage debts in the future.

As the Member knows, that is also a really vital element in the debate on economic governance, and that is all playing out within the Eurogroup at the moment. If you look at where we are in Ireland, while of course the Member and myself will differ in relation to future fiscal policy, we've increased levels of capital investment in our economy from EUR 4 billion to around EUR 12 billion, and we have done that within the existing architecture of the current fiscal rules. So it does point to how, even where we are, higher levels of capital investment can be facilitated but, as I said, this is a really important element in the debate, and I'm sure when I meet you later on in the year we'll be a lot clearer on where that consensus stands.

1-021-0000

Frances Fitzgerald (PPE). – Good afternoon, Paschal, and welcome before the ECON Committee again. Thank you for your excellent ongoing cooperation with the committee.

I will focus on one area in particular, on the digital euro, with a quick query maybe on inflation. I know this is one of the areas that you see as a priority policy area, and it's clear that it has huge potential. There are some challenges and outstanding questions, and I'd be interested in your views on those. One is how do we ensure it doesn't crowd out the private sector? I think a lot of people would be interested in that, and equally that it's an initiative that gives added value to citizens.

Then I think it's important that Parliament would be involved and that we'd have a strong citizen-led voice throughout the process for people to engage and understand it. There is some question that the treaties do not expressly provide for the ECB to issue a digital currency, and I wondered whether there is a legal challenge there that you think you will have to work on?

Another quick question. I know that you've dealt with the question of inflation, but just in terms of the social inequities that can arise, as we know, with inflation, can I ask you what you think the commitment level is in the Eurogroup to new initiatives, should they become necessary later in the year to deal with this? Hopefully they won't, but I'd be interested in your views on that.

1-022-0000

Paschal Donohoe, *President of Eurogroup*. – Thank you very much, Frances, for your questions across all those different topics.

If I begin with the very important point that you made regarding whether a 'crowding-out' risk would exist in the innovation and development from our public institutions in the European Union, such as the ECB, would that have a 'crowding-out' risk in the private sector? My assessment is that it wouldn't. Indeed, my assessment overall is that for the continued development of our private sectors, it's really important that they have confidence in relation to stability of means of payment in the future and they have clarity regarding currencies that are backed by sovereigns, or backed by projects such as the European Union, in which we share our sovereignty with each other through, for example, the euro.

So I see little risk that the development of such projects would crowd out the private sector. Yes, there are private sector developments underway with regard to currencies and stores of value, and indeed we need to be sure that those developments get the balance right between innovation and risk. That is why the MiCA innovation that's under way – and I think is being looked at within the European Parliament at the moment – where we look at the level of regulation that is in place for private sector developments with regard to currency and stores of value is a really important initiative. I think it's really important that we have a regulatory framework in place for the private sector and for innovation that is happening there and changes that are happening there. But I believe that the crowding-out risk at the moment is currently quite low.

In relation to your question about Parliament – I very much accept that point, and I think you're making an important point there – just as I'm eager to ensure that the role of ministers in this debate is understood and that we have our space for making our views clear, I do think it's equally important that the European Parliament, particularly the committee that I'm addressing here today, has a role in fully understanding developments that are taking place and sharing the voice of your institution in a process that could, in the future, have important political dimensions.

In relation to any issues regarding our Treaties and the legal foundations of any developments in this area, firstly we are at an incredibly early phase in all of this. The ECB refers to this as an exploratory stage where they are teasing out different phases and issues in relation to this project. But I'm certain if this project were to develop any further, it would rest on the most solid legal foundations. I know both the Commission and the ECB are aware of the profound

need for any developments in the future to have an utterly solid, legal foundation. I accept the value of this as an issue and thank you for raising it.

In relation to the social consequences of increasing levels of inflation, I entirely understand your point and take it. Increasing levels of prices mean different things to citizens depending on their income, depending on their savings, and within ECOFIN, country-by-country, including within Ireland, Member States are responding back to trying to mitigate the effect of inflation on living standards and particularly on the living standards of the most vulnerable. I do believe, however, as I said a number of times in my testimony to this committee this afternoon, that as we move through the year, we will see a moderation in these inflationary pressures and, in turn, see, I hope, a reduction of the pressure that these rising levels of prices are placing on the living standards of citizens at the moment – particularly the living standards of those with lower levels of income and lower levels of savings.

1-023-0000

Joachim Schuster (S&D). – Madam Chair, I will try to be very brief. You have said – and I agree – that the economy is on a relatively good path at the moment. And you also said that it is absolutely necessary to keep levels of investment high and to further increase them. However, the situation so far has only been possible because the Stability and Growth Pact's debt rules have been completely suspended. Whether this will be reversed from 2023 is under discussion.

Hence my question: are there discussions within the Eurogroup as to whether this decision should be postponed? Or if it is not postponed, do you think that by then there will be a consensus on how to make this Stability and Growth Pact more flexible, how to reform it – or whatever you want to call this? Because if that doesn't happen and we really do go back to the old debt rules, many Member States would be forced to put the brakes on in terms of economic policy, because budget stability and budget discipline would suddenly take precedence again. Then we would have the situation of 2010, 2011, 2012, when many states had to halt the short upswing that they had partially set in motion.

And what measures do you think – and please be a bit more specific, and not just general – are capable of achieving consensus among the euro areas countries? Because these will be relatively decisive for a consensus to be reached.

1-024-0000

Paschal Donohoe, President of Eurogroup. – Thank you to the Member of Parliament for the question. If the interpreters can bear with me, I will just make three points in response.

The first one is: do I believe a consensus is possible in relation to the future of our fiscal rules and how these will help us avoid some challenges of the past and manage a very new economic environment where we have higher levels of indebtedness, which will have an impact on budgetary decisions? The answer to that question is 'yes'. While I do know it will be difficult, there will be a debate that will take place at all levels of the European Union. I also believe that, at the end of the day, we will reach agreement in relation to this issue.

Secondly, the point that the Member makes regarding the higher levels of indebtedness and the impact that would have on budgetary plans that countries would have, I do believe that this is an issue that is appreciated in the debate that is underway. But equally, I think it's important to say that we don't yet have an agreement in relation to how that would be managed. That is part of the process that is being led by the Commission, and that will be an important element in the consensus that will be reached, I hope, in the coming months. But I do want to say to the committee that the impact of higher indebtedness within the euro area, and what that could mean for individual budgetary plans, is an issue that is appreciated by the contributions that are made on this topic within ECOFIN.

Finally, as the Member has said, it is the case that levels of indebtedness have significantly increased. But, of course, the way in which we will be best able to manage those higher levels of indebtedness is that if we can encourage our economies back to a sustainable period of growth that moves into the years ahead, as opposed to just where we are in 2022, this is why it will be important that we make budgetary choices that get the balance right between debt sustainability, which is an exceptionally important issue, but also encouraging growth, building on the progress that we have made in getting our economies back to this level of economic performance.

Just on that point, I'm conscious that in an earlier question I did not explain to one of your colleagues what I meant by my comment regarding the cost of inaction on banking union also being high. By that, what I meant is we're also aware of the fact that we would need higher levels of private capital to pay for our transition to a lower-carbon and more digital future, and that public capital will not be able to deal with it all. It's in that context that I made that point. I do believe the banking union can play a really important role in increasing those levels of private capital, allowing us to use this in a more efficient way to facilitate those twin transitions.

1-025-0000

Chair. – Thank you very much. We have completed our list of speakers. I apologise to those who had asked for a catch-the-eye, but we don't have time and we don't have the interpretation facilities. I wish to thank the interpreters, by the way, because they did work extra time to accommodate our needs.

I thank Mr Donohoe for his availability and for all the responses, and I also thank all the Members for all the questions. It was a very interesting exchange of views. I also take the opportunity to thank you for the invitation to the Eurogroup. I'll see you in Paris.

(The Economic Dialogue closed at 16.00)