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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS**ECONOMIC DIALOGUE WITH PASCHAL DONOHOE,
CHAIR OF THE EUROGROUP****BRUSSELS,
THURSDAY, 29 JUNE 2023**

1-002-0000

IN THE CHAIR: IRENE TINAGLI*Chair of the Committee on Economic and Monetary Affairs**(The Economic Dialogue opened at 11.36)*

1-003-0000

Chair. – Dear colleagues, let's get started with our economic dialogue and exchange of views with Paschal Donohoe, President of the Eurogroup. Welcome, Mr Donohoe.

The previous dialogue with the Eurogroup President took place last year in February 2022. Today's exchange of views will cover the ongoing work programme of the Eurogroup, including the implementation of the 2023 policy recommendations for the euro area as a whole. It will be an opportunity to address issues such as the appropriate fiscal stance, policies to support the recovery and long-term growth, the EU economic governance framework for the smooth functioning of the EMU, the strengthening of the Banking Union, the digital euro and the international role of the euro.

I'm really happy for your presence, Mr Donohoe, and you know how important it is for us to have this cooperation and this exchange of views with you. So thank you very much for being here with us.

Now we will have introductory remarks by Mr Donohoe, of about five minutes, followed by nine Q&A slots, including a first round of seven questions, with 1.5 minutes for the initial questions and three minutes for the answer, with the possibility of a follow-up question of half a minute and one minute maximum for the answer, and then a second round of two questions, with one minute for the question and two minutes for the answer. If time allows, of course, we may have catch-the-eye questions and then the concluding remarks for two minutes by the Eurogroup President.

So, Mr President, I'll give you the floor.

1-004-0000

Paschal Donohoe, President of the Eurogroup. – Madam Chair, honourable Members of the European Parliament, ladies and gentlemen, good morning. It is a pleasure to be here with you today for this economic dialogue after my re-election as President of the Eurogroup, and it's also great to be here in person.

The economic context to our dialogue here today is complex. We have many challenges, but we also have many opportunities, and these challenges and opportunities are interconnected. So let me go straight to what I believe the key issues are in relation to the economic environment that are reflected in the priorities of the Eurogroup – beginning with the economic outlook.

It is encouraging, in the face of the very severe pressures resulting from Russia's awful war on Ukraine and the related energy price and commodity price shocks, that the euro area economy

proved again to be resilient last year with growth of 3.5%. Unemployment is at record low levels and our banking system is stronger thanks to the reforms of the last decade. Energy prices and inflation are falling. However, underlying price pressures clearly persist.

We are increasingly cognisant that there has been a weakening in momentum in the first half of this year. Some of this is to be anticipated, but recent data releases have disappointed, with activity levels effectively flat as we approach the second half of 2023. While I still firmly expect the euro area economy to grow this year, I also need to acknowledge that conditions are more difficult and the policy choices and the trade-offs more complex.

Without for a moment being fatalistic, we should not underestimate the downside risks that we now confront. Homes, businesses are facing the rising cost of credit, high core inflation has impacted on purchasing power, and changes in supply chains are creating challenges for companies of all sizes.

Our immediate priority is really clear. We have to reduce inflation while preserving financial stability and growth. So, against this backdrop, fiscal policy coordination, which is the core of the work of the Eurogroup, plays a really important role for stability and for growth. The Eurogroup has agreed that, over 2023 and 2024, fiscal policies need to be prudent, aimed at ensuring debt sustainability in the medium term, while raising potential growth in a sustainable manner.

Tighter budgetary policies are also important for stemming inflation. The Eurogroup agrees that budgetary policy should support the ECB's efforts and avoid providing broad-based stimulus to aggregate demand, which would make the work of monetary policy even harder.

In this respect, much can already be achieved – and indeed is being achieved as we speak – through the winding-down of existing energy support measures, taking advantage of more favourable situations in energy markets.

This reflects the common understanding in the Eurogroup, and we will take stock of this again when we meet in a few short weeks, when we will issue a statement on the direction of budget policy for 2024.

With this context, let me then address the separate, but related, issue of the reform of economic governance. This is something the Eurogroup is obviously very interested in, and we have had a series of discussions on the framework, focusing on the euro area specific aspects.

With the publication of the legislative proposals and the movement of this work into Ecofin, under the watch of the Swedish Presidency there has been a lot of progress. Now, with the incoming Spanish Presidency, all governments and actors should continue to work closely together to reach agreement on this vital file.

As I mentioned a moment ago, we have to be conscious of the broader context of slowing growth, high inflation and higher borrowing costs.

Against this backdrop, we can't afford to add another entirely avoidable risk by failing to reach agreement on the rules that will underpin our budgetary governance. We owe it to our citizens to deliver a framework that works and that can deliver sustainable growth. We need a framework that is transparent and enforceable, with national ownership fundamental to it.

In parallel to this, we have to mobilise private investment for a greener, more digital and more competitive Europe in a way that is fiscally responsible. On that note, let me conclude by mentioning two figures: 0 and 3. The former represents borrowing costs in the euro area 2 years

ago, the latter represents borrowing costs today. We need to get agreement on this file sooner rather than later, otherwise we run risks in relation to this area.

Let me touch briefly on three other key Eurogroup topics.

Firstly, the digital euro. I believe the digital euro has really strong potential to increase our financial sovereignty, our resilience and our competitiveness.

The world is more digital, it will be more digital in the future, and the digital euro will complement cash. It could – and I believe would – provide a European payments solution that enables our citizens to make payments anywhere in the euro area and at all times in safe, sovereign money, issued by the ECB.

Since this project was launched, the Eurogroup, as a key stakeholder and democratic representative and forum, has regularly discussed the topic and engaged in constructive dialogue with the ECB and the Commission.

The ECB has made good progress in narrowing down possible design choices, and the Commission has put forward a legislative proposal to establish a legal framework.

These are important steps, but we still have more work to do before we reach the point where the ECB is in a position to decide whether or not to proceed with the actual issuance. I know that you and the Council will now review the Commission proposal, but I do believe there is a great story to be told about the benefits of this project.

Moving to the second topic, the Banking Union, this is a really important initiative for our stability and our competitiveness, and then in turn our resilience and autonomy. Much progress has been made and we have seen the value of that progress during the pandemic, but we have to recognise that it's a union that is still incomplete, and in recent years we have worked hard to address this.

Our agreement on ESM reform includes a common backstop for the Single Resolution Fund that is ready to become operational as soon as the revised ESM Treaty has been ratified in all euro area member states.

In June last year, the Eurogroup also agreed that work on further completing the Banking Union should proceed and initially prioritised improving the EU's crisis management and national deposit insurance framework.

While this is obviously not the all-encompassing roadmap that we were aiming for, progress on an important pillar of the Banking Union is now very possible – it's about making our resolution framework better for small and medium-sized banks, thereby better protecting depositors and the taxpayer.

I very much welcome the proposal from the Commission made in April, and hope and ask that we do all we can to reach agreement inside the current legislative cycle. We will continue to review the state of the Banking Union in the Eurogroup, and look at further measures to complete it.

Finally, on the Capital Markets Union, well-integrated capital markets are crucial to enabling private funding to do more, to square the circle of how we are trying to find more resources to do more at a time in which budgetary policy is changing. More needs to be done, and the current geopolitical situation really adds to the urgency of that work. This was also recognised by the Euro Summit in March, where leaders called for further efforts to develop the CMU. The

Eurogroup has heeded this call and has launched a series of strategic discussions on the future of European capital and financial markets that will continue in the months ahead.

It is our intention that this process will be markedly different to proposals that are currently being worked upon by the co-legislators. Our work is to add to the political momentum, beyond the files that you are working on at the moment, and to identify areas in which further progress is possible and which we could invite all institutions to take further action on in the next cycle.

That brings me to the end of my comments. I look forward greatly to the questions from the Committee.

1-005-0000

Lídia Pereira (PPE). – Mr President of the Eurogroup, this hearing in the European Parliament could not have come at a more appropriate time.

Europe is facing a technical recession, which threatens our economic recovery; we have high levels of inflation, which threaten households' purchasing power, and low productivity levels, which threaten our global competitiveness.

When I look at my own country, Portugal, I see that the situation is even more serious: productivity is 35% below the European average, public debt is the third largest in Europe and taxes represent the Union's fifth largest tax effort.

This is the challenging context in which we are discussing the reform of economic governance, even if the Portuguese Prime Minister has said that now is not the time to discuss deficit limits or debt limits. Actually, it is exactly the right time.

If public accounts are balanced, then there must be high-quality, job-creating public investment that ensures the provision of public services that citizens deem to be adequate, at least. Furthermore, public debt needs to be reduced in a sustained manner, in order to ensure intergenerational solidarity and to show a commitment to the younger generations.

We cannot, therefore, continue to overburden younger taxpayers with the irresponsible decisions taken today.

And I would like to ask you, therefore, if you think that the European Semester requires further development in the area of taxes, and whether the European Union should issue country-specific recommendations on excessive tax burdens, so as not to overburden the middle class, who have repeatedly borne the cost of economic crises.

1-006-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much, honourable MEP for your comments and questions. I'm very, very much aware of the complex economic environment that you are describing, but beyond talking about a macro-economy – what that means for households, what that means for families, what that means when you're a family and you see the cost of living go up by so much, the cost of your groceries go up by so much – or if you're a small firm that have suddenly seen your supply chain and all the raw materials that you need, become so much more complex and soar in price, we are asking our citizens to confront these challenges after the very, very difficult period of a pandemic that is still with many and is only really behind most now. So it's a very, very demanding time.

That being said, I do believe within the Eurogroup there is a very high level of awareness regarding the need now to reduce debt in a sustainable way and respond back to the imperative of intergenerational equity that you've identified. But, to reduce our debts in a way that is also sustainable and also reflects the fact that at the moment there is still government intervention

that is needed to, for example, deal with the costs of the war and to, for example, support our most vulnerable households and employers who are finding it particularly difficult – and that balance is something the Eurogroup has identified in our budget statements over the last number of months and will do so again in July.

Regarding the role of country-specific recommendations on taxation, that I'm sure you'll appreciate me saying, is a matter very much for the Commission, but I would have to acknowledge that if I look at the economic performance of Portugal – and I had the great pleasure of being able to visit Minister Medina there a few weeks ago and he's an excellent colleague within the Eurogroup as well, the deficit improvement within the Portuguese economy has been very, very strong over the last number of years, and the growth and employment performance of the economy has also been strong.

I'm aware of the productivity challenge that you have described there. It's a productivity challenge that many economies face at the moment. But I do feel that the efforts of many euro area economies across this year, to begin the journey of reducing borrowing at a time of high inflation and increase in borrowing costs, is the right journey for us to be on, and it's now one that we need to continue, given our current challenges of inflation, but also to do so in a way that does recognise the other complex challenges that I've referred to and the needs of our society. That balance is what we, as a group of ministers, are trying to attain at the moment.

1-007-0000

Margarida Marques (S&D). – Mr President, I will also speak in Portuguese and I would like to highlight the references you made to the evolution of the economic situation in Portugal, in particular, and also to the evolution of Portuguese debt itself, which I think should be recognised.

However, in your speech you made several references to the Commission's proposal on the revision of economic governance rules. I can only support what you said, but I would like to ask you a few questions on precisely this topic.

Firstly, I would like to ask about their overall assessment, but not only their overall assessment. I would like to ask you more specific questions: how has this discussion evolved within Ecofin?

In addition, do you believe that it is possible to reach an agreement at the Council before the end of the year? We know that such an agreement is urgent, as you mentioned.

And I would also like to ask you to comment on the state of play regarding the internal division of Member States, that is to say, the points causing most disputes. Furthermore, please could you share with us your thoughts on the landing zone, or the possible landing zones?

Also, if you had to make one amendment to the Commission proposal, what would you propose?

Finally, still on this topic, is time sensitivity considered to be a strong and sufficient incentive for Member States to make necessary strategic investments, or, on the contrary, is support needed through a fiscal capacity such as NextGenerationEU?

1-008-0000

Paschal Donohoe, President of the Eurogroup. – Honourable MEP, again thank you very much for the questions that you have put to me there, and I'll do my best to deal with each of them in turn.

So, firstly, my sense of how the issue is developing within Ecofin, I should emphasise that I'm here as President of the Eurogroup and as you well know, our Ecofin format is chaired by the

rotating presidencies. But of course I'm aware, through consultation with my colleagues, of how the process is developing and I have the privilege of attending the informal breakfast part of Ecofin each month. So, in terms of how the debate is developing within Ecofin, I believe it's developing in a very constructive way, I must say. I think the Swedish Presidency did a very good job of trying to move the process forward. But in a project as complex and as sensitive as this, I think it's also important to acknowledge there's still a lot of important work to do, and we very much look forward to working closely with the Spanish Presidency to do that work. Their presidency will be happening at a particularly important time for the economic governance process because, of course, to try to reach conclusion and agreement on this matter we have to recognise the fundamental role of our Parliament and your institution, and allow all the time that we can to allow you to do your work – and that's very tight at the moment, which we all appreciate. So, the Spanish Presidency will have really important work to do quickly, and of course we all want to support them in their work.

Do I believe agreement can be reached? Emphatically and definitely yes, I do believe agreement can be reached. But to go back to the point I made a moment ago to you, we will have much work to do in the coming weeks and months.

In relation to what you refer to as division and conflict, I'd frame it slightly differently. There are differences of opinion that reflect the fact that there are different political traditions present in Ecofin and different national economic outlooks, just as there are, I know, differing views within this Parliament and this Committee. But, I was a member of Ecofin for over five years and I have to say the tone in which the discussions on economic governance are happening are ones where there are differing opinions, but it is not a discussion that I could describe as being full of conflict. There is an appreciation of differing points of view from Ministers, but also, I believe, still a commitment to try to reach agreement.

In relation to what I believe an eventual landing zone could look like, I'm afraid I couldn't give you a steer on that at the moment, but what I can comment on is what are the publicly known differences at the moment. There are many differing views on different facets of the Commission proposal. One of the big commonly known areas in which further work will need to be done are the trade-offs between how further investment can be delivered and also the view from other colleagues regarding the need for a stronger framework in relation to debt reduction. That is a key area in which we'll need to do further work, and you're aware of the differing publicly articulated views on that.

But what I think is also important to acknowledge is even though there are differing views on that theme alone, many of my colleagues have also said that the Commission proposal offers a really good basis for discussion, and I know that's the work that will happen in the time ahead.

Then in relation to your final question regarding what change I believe should be made, I'm afraid I think we should come back to that question a little later in the process, and it's not for me to forecast how the process is going to continue. If I was to identify one particular area of change, I know I'd have other Ministerial colleagues who would identify a different one, and I recognise that and I think a little later in the year it might become, I hope, clearer regarding how progress can be concluded. We do have much work to do but the conversations are being handled in a way that reflects their importance.

1-009-0000

Margarida Marques (S&D). – Mr President, in your opinion, what are the risks associated with not reaching an agreement in a timely manner?

1-010-0000

Paschal Donohoe, President of the Eurogroup. – Thank you for the reminder. There are many risks that I'm confident we will avoid. Obviously, the main risk is that in the absence of a

commonly agreed medium-term budgetary framework, that makes the challenge of budgetary coordination within the euro area very difficult. The risk of national budget policies going in different directions makes our ability to deal with all of the economic risks that I identified a lot harder – and it's in all of our interests to avoid that happening.

1-011-0000

Billy Kelleher (Renew). – Thank you very much Chair, and welcome Minister. Just to say at the outset, the Deputy Head of the IMF recently warned that the ECB policy in terms of interest rate rises could potentially trigger a financial crisis. They said we're not there yet, but if we continue on this path we could arrive at a scenario whereby the divergence of economies in the eurozone area, large elements of public debt in some countries and having no underpinning macroeconomic governance framework, having no deposit insurance scheme in place, having no crisis management deposit insurance scheme in place, and then as we're coming to the end of the emergency escape clause and unwinding that towards the end of this year and into 2024, then clearly the euro could be in a very vulnerable place if we do not arrive at a scenario where we have political agreement around the macroeconomic governance framework.

In terms of the country-specific, President of the Eurogroup, could I just ask, what are your views on the need for us to accept that one size will not fit all in terms of the economies, the public debt, the pressures on some governments in terms of trying to even sustain that debt and, at the same time, when you talk about sustainability of debt, we must also be conscious of sustainability of societies and political structures in countries themselves who are beginning to creak under debt again and, with the rises of the ECB taking place, that this is being exacerbated, even as we speak.

So, have you ideas as to how we manage the country-specific concept? And do you believe that there is enough capacity to get agreement in the Eurogroup around this specific issue and more broadly then in the Ecofin, because this to me is the most fundamental issue – how we keep political societal stability in Europe, try and reduce debt but, at the same time, sustain services bearing in mind that citizens have been under enormous pressure for almost ten years now in some countries with the financial credit crisis, the Covid pandemic, and now the huge inflationary pressures on households as well. So that's just an observation I'd like you to comment on.

1-012-0000

Paschal Donohoe, President of the Eurogroup. – Thank you for your questions and comments, MEP Kelleher. Just to start with your last point and make it my first point, I entirely appreciate and agree with your point regarding the society context to the economic discussion that we are having. When MEP Pereira put her question to me, I was at pains to begin by saying that for households and for businesses it's been a tough decade and it's hard at the moment for many. I think it's so important in our work that we can relate the big concepts that we're talking about to that everyday reality. I'm a politician like you and I very much appreciate the challenges that lots are facing at the moment.

Just to then deal with the questions that you put to me regarding the country-specific elements discussion of the economic governance process, and then your point about how we can improve debt sustainability while maintaining the political support to do it. Firstly, on the country-specific element of it, and do I believe that we can build up confidence on recognising that the debt situation of each country at the moment is different and that there has been a wider divergence of debt levels within the euro area that have been driven by the war and then driven by the aftermath of a pandemic, and then we need to handle the reduction of that debt in a credible way for different countries? Yes, I believe we can get that balance. But what we then need to do is find a way in which we can deliver those debt reduction strategies, but for which there's trust amongst the entire euro area that if commitments are given to reduce debt, that it

will lead to that debt falling. I do believe we can get that balance in the discussion that is underway in economic governance, but emphasising again that this is happening within Ecofin.

In relation to your point then about how can we get political support to reduce borrowing and reduce debt, given the difficulties that both of us are acknowledging, I think there are two parts to that answer. The first one is the political argument – trying to convince societies that we cannot continue with Covid-era levels of borrowing indefinitely, because if we do that will create new risks and problems that could happen quickly. Secondly, as we are reducing levels of borrowing, which we will have to do, that we find ways of maintaining investment in things that can make a really big difference to people's lives today. A very concrete example of that, that you and I would be very much aware of, is how we can maintain investment in the ability for more homes to be built at a time in which we're trying to reduce borrowing for current expenditure. That for me is the kind of balance that, for Ireland, we will need to attain, but many other economies within the euro area face exactly the same challenge.

I should end also, if I may Chairperson, by just going back to the opening comments from MEP Kelleher – I'm absolutely certain that we can maintain the robustness and the resilience of the euro in any conditions that could develop. While I noted that you made reference to the comments from the Deputy Head of the IMF and the different risks that could develop, I am very confident that we can avoid those kind of terrible scenarios from happening, but the Deputy Head of the IMF would also acknowledge that very high levels of inflation persisting into the medium-term for the euro area economy will have very worrying consequences for our living standards and for our competitiveness. It's that path that we're trying to attain at the moment of reducing inflation while dealing with the challenges and risks that you have just raised with me.

1-013-0000

Ville Niinistö (Verts/ALE). – Thank you, Chair, and many thanks President, for coming here. We, as Greens, have been wishing for more regular exchanges with you. So we are happy that this can be a start to that.

My first question, or main question, will be on the Banking Union. You already touched upon the European Deposit Insurance Scheme shortly, but if you can expand a bit your views on this, especially taking into consideration the developments in the banking sector last March – the collapse of Silicon Valley Bank, the takeover of Credit Suisse and also such risks that can be exacerbated by the influence of social media nowadays. So I think there still is a possibility of a risk of bank runs, even in Europe, and the role of deposit insurance is then even more crucial to safeguard depositors' confidence in the banking system and prevent such crises.

We are therefore convinced that now is the time to move forward to a European Deposit Insurance Scheme. In June last year, you failed to reach an agreement on the roadmap, but you mandated the Commission to put forward a proposal for reviewing the banks' crisis management framework and also committed to continue to work on the outstanding elements of the Banking Union.

So my two questions are, now that the Commission has published its CMDI proposal, do you consider that it complies with the mandate that you gave? Despite your commitment to continue to work on the other elements of the Banking Union, including EDIS, there is almost no discussion planned on Banking Union in the Eurogroup work plan until March 2024, if I understand correctly. So, do you see that, considering the recent banking events and the CMDI proposal, that there could be a political momentum to move forward even with EDIS, in this context, even in the Council?

1-014-0000

Paschal Donohoe, *President of the Eurogroup*. – Thank you very much for those three questions.

So, firstly, do I believe that the package of proposals from the Commission is consistent with the mandate from the Eurogroup? Yes, I do.

Secondly, the only reason why there is no planned discussion in the Eurogroup on Banking Union is because in all of my last mandate we discussed the Banking Union every single month, and even towards the end of last year we were having meetings in which nearly the only topic was the Banking Union. Now that the proposals have been brought forward by the Commission on Crisis Management and Deposit Insurance proposals, those proposals now have to go to Ecofin and I hope – and really want – them to be considered and agreed with you too.

So, practically, that is the reason why the discussions are now formally scheduled to come back to in March 2024. But even since the Commission have brought forward their proposals, we had a political discussion on it in the Eurogroup, and we have a standing feature for nearly every Eurogroup meeting where we have a discussion on macroeconomic prospects and, under that heading, we always have the ability to come back to Banking Union topics and we can come back to the Banking Union at any point in which I and the Ministers decide to do so.

In relation to your final point about momentum, the Banking Union proposals that we have, of course, the context for them is what has happened in America and what happened elsewhere in Europe, that's the context. But it's not the reason why we did all this work, and it's not the reason why the Commission brought forward the proposals a few months ago. The momentum for that work is our own desire to strengthen the Banking Union. It may have been underlined by us recognising the importance of that work due to what happened in America, but what happened in America isn't the cause of this work. This work is happening because we know we need to do it.

In relation to what do I think are the sources of potential momentum on the other pillars of Banking Union, all members of the Eurogroup are committed to completing the Banking Union, but you'll know as well as I do how sensitive some of these discussions are. I'm convinced that the main path to opening up other discussions in the future is agreeing what we have in front of us, and that is the package of proposals that you will be considering in conjunction with the Spanish Presidency. That, combined with implementing what we've already agreed to do, are the two sources of momentum on Banking Union. I believe we can close out those two areas and, if we do, that will then provide an environment in which we can assess if other progress is possible on other topics.

I should say at all times, though, that this progress will only be possible if this consensus is there to have that discussion. But I know all my colleagues will want to see us implement what we've agreed to do.

1-015-0000

Denis Nesci (ECR). – Mr President, thank you first and foremost for being here today.

In the light of President Lagarde's recent statements, could I ask you your opinion of the ECB's monetary policy? Europe's economic framework, which you described as complex – I would say fragile – would, in my view, have suggested caution, not least because there is a very real risk of recession in the Member States.

The cost of borrowing – which you described as a crucial element – is a key figure when it comes to the issues affecting households, savers and consumers. So do you think we are on the right path?

Moving on to economic governance, you stated that we have to be conscious of the broader context. On that point, I would add that the Member States are determining their future economic growth on the basis of how this reform of the Stability Pact is defined, and that is why I totally agree with you that stability, but also – and above all – growth, must be safeguarded. In view of this, I would like to ask you: how would you assess the Commission's approach? As far as I am concerned, it is a bit too strict and could, in fact, lead to austerity.

I would prefer to see a little more flexibility instead. And I would like to finish with an example to be even more specific. What do you think of the possibility of a golden rule for public investments and NRRP investments?

1-016-0000

Paschal Donohoe, *President of the Eurogroup*. – Thank you very much for your questions. I believe that the proposal that the Commission has brought forward is very, very balanced. There is, as we have already referenced on a few times here today, of course a reaction back to us that reflects that there are differing political views and different economic outlooks, and different Ministers have differing views now in relation to how the subject can be moved forward. That's entirely understandable and entirely to be expected.

But all of my colleagues also recognise that the Commission proposal is a very good basis for discussion, and I believe the Commission have worked hard to try to find a balance between the different competing priorities within the Stability and Growth framework.

In relation to investment and the investments that are underway – and you made reference in particular to NextGenerationEU – I have two comments on that. I think, firstly, we can all see what are the political and social and economic consequences of investment within the European Union from the private sector and the public sector not recovering in the aftermath of the global financial crisis and what that means now for where we are with climate change, what it means in relation to the availability of housing and the affordability of housing – all things that are fundamental to the daily lives of our citizens.

If I look at the public investment plans that are now under way through NextGenerationEU, it is an amazing opportunity and an amazing response back from the European Union to try to avoid investment levels falling again in the aftermath of the pandemic. I would contend, here today now, that the most important thing that all national governments can do is to implement the investment plans in the way they have committed to do, and to also implement the reform element of those investment plans, because that is just essential to maintaining trust in the huge investment plans that are being funded in a unique and politically important and new way.

So, we need to implement the national resilience and recovery plans that we have all agreed to do and, of course, their importance is particularly clear at a time in which we are trying to maintain investment while reducing borrowing.

1-017-0000

Denis Nesci (ECR). – I just wanted to refer to the ECB's monetary policy and the constant rate increases. What is your opinion of them?

1-018-0000

Paschal Donohoe, *President of the Eurogroup*. – The future course of monetary policy is a decision for the European Central Bank, and I fully respect their independence and appreciate the need for it at the moment. They, like we, are aware of the consequences of the decisions they make, but we have to weigh those challenges up against the alternative – and the alternative is that if we don't get inflation down within Europe, and in particular within the euro area, we will all become even poorer. If we can't get inflation back to the target of the ECB, the consequences of that for living standards for Europe in the years ahead are also really severe. I

believe we need to take the steps that we can – also from a fiscal point of view – to avoid a scenario like that developing.

1-019-0000

France Jamet (ID). – Madam Chair, President Donohoe, in March 2023, the Council adopted its broad guidelines for the reform of the economic and financial framework of the euro area. While the consolidation of public finances is undoubtedly a key challenge for the coming years, one can but regret the austerity-based approach to this reform, which entails clear tax increases and unprecedented cuts in public spending where it is most needed.

It no longer makes sense to pursue private goals enshrined in the Treaties since Maastricht. It no longer makes sense, in 2023, to seek to reduce public deficits to 3% and public debts to 60% of GDP. Potential economic growth has declined significantly, and the migration, industrial and climate challenges we face are unparalleled. The State will be the only possible investor in the major structural works needed to address all these challenges. And while the possibility of establishing individual fiscal trajectories is not necessarily a bad idea in itself, it is unfortunately only a stopgap given the Copernican revolution that is needed after so many years of toing and froing and denying the economic realities.

My question is as follows: will the reform ultimately change the way in which deficits and debt are calculated, in particular to exclude defence spending and climate-related investments? Finally, is it possible to confirm that at this stage the option of country-specific trajectories has been chosen rather than an EU-wide target?

1-020-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much for your question. In relation to how we calculate debts and deficits, you'll be aware of the work that the Commission have proposed in relation to a DSA, a debt sustainability analysis, and how that will influence their work in relation to expenditure benchmarks. So they're already indicating in the work they are bringing forward a differing approach regarding how we think about debt.

In relation to your point regarding what could be the way in which investment is calculated, firstly I'd say in the discussions that, I've seen unfold, there is certainly a high level of awareness regarding the importance of sustaining investment within our economies and not allowing investment levels within our economies to fall in the way they did in the aftermath of the global financial crisis. Is that going to lead to particular forms of expenditure being excluded? Some governments are making the case for that. It's not for me to forecast or predict where therefore that will end up, But I will make an evident point that if you begin excluding some forms of expenditure, you'll have many other governments that will then make the case that other forms of expenditure should also be excluded as well. I think that could create then difficulties a bit further down the road in relation to how expenditure benchmarks are then implemented. But, as I said, this is something that Ministers do have different views on, and I know this is something the Spanish Presidency will do a lot of work on in the time ahead.

You made reference to the word 'austerity' and the risk of austerity. As you will know, government spending has increased massively over the last number of years and, in any of the discussions that I see unfolding, for me, it is about how we, at least in the short-term, grow expenditure at a slower pace than we have in recent years. I do think the discussion that is now unfolding, while there is still a big focus on maintaining responsibility for sustainable and safe public finances, is a very different discussion to where we were a decade ago because of the impact of the war and the impact of the pandemic.

1-021-0000

Markus Ferber (PPE). – Dear Mr Donohoe, President of the Eurogroup, it is a great pleasure to have you here with us. I very much appreciate the chance to have this dialogue with you.

You have just spoken about inflation, as well as public finances and their substantial growth. The ECB President has already mentioned on a number of occasions that she cannot correct everything in her monetary policy that goes in the other direction in fiscal policy. And she has also pointed out that monetary policy and fiscal policy must go hand in hand if we want to get the high levels of inflation under control. It is in this context that Ms Lagarde has repeatedly criticised that many of the measures adopted by Member States in recent months, not least also in response to the energy crisis, actually fuel inflation – they have the exact opposite effect of what the ECB is trying to achieve with its interest rate policies.

Therefore, I would like to ask: what fiscal policy strategy does the Eurogroup think should be adopted over the coming months, or even years, in order to bring monetary and fiscal policy in line with each other?

And secondly, given that you have also already touched on the CMDI framework: Looking at the Eurogroup statement from June 2022 alongside the Commission's proposal, there does seem to be a certain discrepancy. What does this mean for the work also within the Eurogroup on the banking union and CMDI package?

1-022-0000

Paschal Donohoe, *President of the Eurogroup*. – Thank you for those questions. The statements from the Eurogroup in relation to budget policy – and we're going to be coming back to this in a few weeks' time – commit ourselves to coordinating fiscal policy with monetary policy. If you have a look at the deficit forecasts, which I know the honourable Member will be aware of, we are seeing deficit levels within the euro area fall. We're going to see them fall from around 3.2% this year to around 2.4% next year. So deficits are due to fall.

However, we are reducing borrowing and aiming to phase out energy supports at a time during which the cost of living is still so high for so many, and this then points to the balance that Ministers have to aim for. We have to reduce borrowing. We have to move away from the budget policies that became needed and became quite popular during the era of Covid and begin the journey back at a time of high inflation to the normal budget policies that are appropriate for economies that are trying to get inflation down.

I know that the ECB have commented on this, and analysts have as well, about the direction of fiscal policy, but the intent is there for Ministers to do it, and if I look at what we have done with energy supports, we have many examples now of where they have been phased out within Member States' economies. I'd give the example of what is happening with Ireland, where the big tax reductions that we put in place across April and May of 2022 are now being phased out at the moment. So taxes have gone up on petrol and diesel in Ireland over the last number of weeks because we have seen the price of petrol and diesel go down due to changes in the energy market and many of my other colleagues are implementing similar measures. It is a complex environment for doing this, but I am certain that over time the commitment that we have given to not making the work of monetary policy even more complicated and even harder in getting inflation down, will mean that we will be able to move, make more progress with our budget policy in delivering against that goal.

In relation to your point about the Banking Union, since that statement was issued by the Eurogroup we have now seen the Commission bring forward their proposals on Crisis Management Deposit Insurance and I hope we'll be in a position now to reach agreement on that file in the coming months.

1-023-0000

Paul Tang (S&D). – Thank you and let me start with the annual report of the Bank for International Settlements, where they express their concerns about persistent inflation, even higher interest rates, pointing out a material risk of further financial distress. With that in mind,

within the context, I would like to draw your attention to the position of the Italian government. Prime Minister Meloni says that the ESM Treaty cannot be approved without a deal on the new EU budget rules.

So my questions to you are: if the revision of the ESM Treaty is postponed, what are the implications for financial stability in an area of further financial distress, as the BIS says? Second, what is your appreciation of the Italian policy set out by Prime Minister Meloni that takes the ESM hostage? And third, what can we expect from the Chair of the Eurogroup in bringing the ratification of the ESM Treaty forward? Are you in contact with Rome?

1-024-0000

Paschal Donohoe, President of the Eurogroup. – Thank you very much for your three questions. I'll begin with the last one. I'm in very regular contact with Minister Giorgetti in relation to the status of the ESM Treaty, and that Treaty and its current status within Italy was the subject of much discussion and constructive focus at the Board of Governors meeting of the ESM that took place in Luxembourg a few weeks ago. So the matter was discussed there and Minister Giorgetti updated the Eurogroup on the status of the ESM Treaty in the Eurogroup meeting before that – so in May. So we have had much contact with Minister Giorgetti and it is being discussed both within the ESM and within the Eurogroup.

In relation to the status of that treaty within Italian politics, that is the treaty at the moment that will be discussed within the Italian Parliament and shortly, formally and is discussed there regularly anyhow, because it is a treaty that has a lot of political prominence in Italian politics. So I recognise the sensitivity of this and of course I appreciate that for the Italian Government, this treaty is a matter that they have already commented on and it is a difficult topic in Italian politics, so I appreciate that.

That being said, it is very important that even if a government decides they don't want to access the additional facilities that will be available to the ESM in the future it is, I still hope, possible to make the case that by the ratification of that treaty, it will make those same instruments available to other governments and to other members of the euro area. I absolutely respect and understand the view of the Italian Government when they say that they don't want to access or make use of those facilities in the future.

I fully understand that and fully appreciate why they make that case. But the ratification of the treaty will allow the deepened power of the ESM to be available to other countries who may decide they want to avail of it in the future, and that is an argument that I hope can be listened to in the debate that is underway in Italy in relation to why the ratification of that treaty is important. It's important because it gives our shared currency a stronger safety net in the event of potential difficulty in the future, and that's something that we can all benefit from.

1-025-0000

Chair. – Thank you very much. I have no further requests for the floor, and we are almost ten minutes over time. That was very, very interesting, so thank you, President Donohoe, for your availability and thank you to all the Members that participated in the debate.

(The Economic Dialogue closed at 12.38)