Eurogroup
The President

19 March 2021

President Charles Michel
European Council
Rue de la Loi 175
B-1048 Brussels
Belgium

Dear President,

The December 2020 Eurosummit recalled the relevance of a stronger international role of the euro which should be commensurate with the global economic and financial weight of the Union.

Building on the European Commission Communication *"The European economic and financial system: fostering openness, strength and resilience"* published on 19 January 2021, the Eurogroup, also in inclusive format, discussed enhancing the international role of the euro as an element of the EU's open strategic autonomy and resilience while strengthening our openness and global engagement. Our discussions showed our commitment to pursue policies that will support Europe's role as a global economic power, a champion of international trade and cooperation, and a leader on the green transition in an increasingly multi-polar world.

The Eurogroup will continue its work on the following elements which can contribute to realising the euro's global potential, while monitoring potential challenges stemming from the increased international use of the euro.

Pursuing a strong economic recovery

Our ability to engineer a solid, inclusive, and sustainable recovery from the Covid crisis will contribute to strengthen the attractiveness of the euro, building on the unity of purpose we have demonstrated in the response to the pandemic. This unity and determination was again reaffirmed in the statement we have adopted on the euro area fiscal policy response to the COVID-19 crisis and the path forward[1].

The Eurogroup discussed the risk of strong divergence across countries and sectors in terms of the speed of the economic rebound. In view of these risks and the prevailing uncertainty, the Eurogroup

[1] Eurogroup Statement of 15th March included in Annex

will continue to promote the coordination of our fiscal responses, as maintaining consensus and remaining agile in our policy response to the crisis are of key importance.

At the same time, a swift roll-out of the Recovery and Resilience Facility and implementation of the Recovery and Resilience Plans will boost confidence through investment and structural reforms, thus emphasising the international role of the euro and give the necessary drive for the green and digital transitions.

The sizeable issuance of high-quality, euro-denominated debt securities by the European Union in this context, a large part of which will be green bonds, alongside those under the SURE instrument will add to the existing issuances by European Institutions and bodies like the EIB or the ESM. This will add depth and further support the development of the EU's capital markets and make them and the euro more attractive for investors.

Continuing to build solid foundations for the euro

We agreed that our actions should be broad-based, and first and foremost aim at making the euro area more robust by pursuing sound economic policies. This is also at the core of the Council Recommendation on the economic policy of the euro area, which underscores the importance of completing EMU, completing the Banking Union, and deepening the Capital Markets Union for enhancing the international role of the euro and promoting Europe's economic interests globally.

The agreement we reached last year on the ESM reform and the early introduction of the backstop to the Single Resolution Fund paves the way for further progress on the Banking Union. Following the mandate of the Eurosummit, the High Level Working Group on EDIS is working towards the preparation of a stepwise and time-bound work plan on all outstanding elements needed to complete the Banking Union.

Supporting the development of innovative and resilient financial market infrastructure and payment systems

Beyond sound economic policies, well-integrated, efficient, and resilient financial markets and payment systems also contribute to deepen the Single Market and support the resilience of the euro and its status globally.

Supporting the development of pan-European market infrastructure and payments solutions will increase efficiency and foster the integration of markets in the euro area, also creating the necessary scale for these markets to strive.

In particular, promoting the widespread use of instant payments, such as the adherence to SEPA instant credit transfers, could contribute to move towards an innovative, open, resilient, safe and inclusive payments ecosystem.

A currency for the digital age

The initiatives under the digital finance agenda and the retail payment strategy will support a well-functioning digital financial ecosystem and increase the efficiency and competitiveness of the European cross-border payment landscape, to which a digital euro can also contribute.

A properly-designed digital euro has the potential to unlock major benefits for citizens, businesses, Member States and the overall functioning of our economic and monetary union. In a context of fast-paced innovation in the private sector and ongoing initiatives in a number of third-country jurisdictions, the possible issuance of a digital euro is also relevant for the international role of the euro and could provide a tool to protect Europe's strategic autonomy. The work needs to build on a careful and thorough analysis, recognising the potential consequences in the areas of privacy, consumer protection, illicit finance and financial stability.

The Eurogroup will return to this topic in the follow-up to the ECB consultation in April. Given the potentially far reaching repercussions of such a project for our citizens, businesses, and the EMU as a whole, we stand ready to support work in this area in line with guidance from Leaders, within the respective institutional roles and mandates of all actors involved.

Making the euro the currency of the green transition

Preserving and further increasing the attractiveness of the EU financial markets for sustainable finance will also be key to bolster the euro's international role. Europe has a head start in the issuance of green, social, and sustainable bonds. The Eurogroup was happy to note the leading status of the euro in these markets globally. Europe's current leading position should be supported by the objective of having 30% of Next Generation EU investments funded by green bonds; maintaining the lead will require continued ambition in pursuing the European Green Deal agenda. We underscored the potential of green finance to augment the use of the euro by the markets while also contributing to achieving our climate transition objective.

We also recognised the potential for Europe to be a standard setter in green finance and to promote international convergence by designing effective frameworks that could serve as global templates, and strategically developing the rules in a consistent way to support the development of green markets on a global scale. This will also help to develop EU financial markets and have positive effects on the euro's international usage. The upcoming EU Green Bond Standard, the EU sustainable finance taxonomy, the new EU sustainable finance strategy, and the review of the sustainability disclosure and reporting obligations will further support EU green investments.

Extending the euro's reach

The attractiveness and reach of our Economic and Monetary Union is also illustrated by the efforts towards future adoption of the euro in Member States with a derogation. Last summer we welcomed Bulgaria and Croatia into the ERM II, which is a step on their way to euro adoption. The Eurogroup will continue to give its support and guidance on the appropriate policies leading to successful participation of non-euro area Member States in the ERM II and their eventual adoption of the euro once the criteria are met.

Let us not forget that our common currency is an unprecedented collective endeavour and a testament to the unity imbued by the core principles that underpin our Union. All those who use the euro – even those beyond our borders – are beneficiaries of the stability of our common currency which itself builds on the principles of democracy and respect for human rights and fundamental freedoms and of the rule of law. The Eurogroup will articulate the unique advantages of our stable, resilient, and principles-based currency in the global context.

Let me conclude by stressing the resolve of the Eurogroup in continuing to tackle the economic challenges that we are confronting, to buttress the strength of our Union and the international role of the euro.

Yours sincerely,

Paschal Donohoe

Paschal Donohoe T.D.
Minister for Finance and
President of the Eurogroup

Annex

Eurogroup

Brussels, 15 March 2021

Eurogroup statement on the euro area fiscal policy response to the COVID-19 crisis and the path forward

1. One year on, the world remains in the grip of the COVID-19 pandemic and we continue to focus on tackling its economic and social consequences. Our vigorous policy response at the national, euro area and EU level is paying off. The EU has put in place new common instruments of unprecedented size, notably the Recovery and Resilience Facility (RRF). We continue to support our economy, citizens and businesses through these times of extraordinary health and economic distress, mitigating the impact of the crisis.

2. The activation of the general escape clause and the temporary framework for state aid, allowed national governments to put in place a far-reaching level of fiscal support in 2020, estimated at about 8% of GDP, in addition to liquidity schemes of about 19% of GDP in the euro area. This far exceeds the response to the Great Financial Crisis. The three European safety nets - SURE to mitigate unemployment risks, the EIB Pan European Guarantee Fund, and the ESM Pandemic Crisis Support, agreed in April 2020 - complement national responses. The monetary policy decisions and forward guidance from the European Central Bank, which have preserved favourable conditions for all sectors of the economy, and actions by supervisory authorities, have also been indispensable. Together, European measures have supported confidence, protected millions of jobs and livelihoods, and cushioned the impact of the pandemic crisis on companies, thereby shielding incomes and productive capacity from the worst effects of the pandemic.

3. The Commission 2021 winter forecast confirmed that the recession in 2020 was severe, albeit somewhat less than expected last autumn. The progress in the development of efficient vaccines and a high vaccination rate are crucial for overcoming the pandemic. This will allow a greater opening up of our economies and a resumption of growth. Nevertheless, the outlook remains clouded by uncertainty and the recovery is expected to be uneven across countries, regions and sectors.

4. Close coordination of fiscal support within the Eurogroup has been a key part of our joint economic policy response to date. Continued strong coordination of supportive fiscal policy in the euro area remains critical to ensure our economies move into a sustained recovery phase. We welcome the

Commission Communication of 3 March 2021 "One year since the outbreak of COVID-19: fiscal policy response", providing policy orientations for the coordination of our supportive fiscal stance. In light of the Commission assessment, we reaffirm the fiscal policy strategy set out in our December 2020 statement on the 2021 Draft Budgetary Plans.

5. We are united in our approach that until the health crisis is over and recovery is firmly underway, we will continue to protect our economy through the deployment of the necessary level of fiscal support. Supporting economic activity and mitigating scarring effects through timely, temporary and targeted measures is key to longer-term fiscal sustainability. Premature withdrawal of fiscal support should be avoided. The Eurogroup is committed to a supportive stance in the euro area in 2021 and in 2022, also taking into account the fiscal stimulus stemming from the RRF. Ambitious reforms and productive investment, supported by the RRF, are key to increase growth potential in the medium-term. The Eurogroup notes the Commission's preliminary indication that the general escape clause will continue to apply next year.

6. For the time being, and as long as the acute health emergency prevails, broad fiscal measures remain necessary to protect citizens and companies. Fiscal policy should remain agile and effectively adjust as the health and economic situation evolves. In a second stage, once the health situation improves and restrictions ease, fiscal measures should gradually shift towards more targeted actions to promote a resilient and sustainable recovery. Viable but still vulnerable firms should be helped to avoid solvency problems, reopen and adjust their business models. Policies should continue to protect employee-firm relationships, while increasingly facilitating job transitions and the creation of job opportunities for unemployed and inactive persons. The measures should be adapted to the pace and strength of the recovery in each Member State and underpinned by a continuing commitment to fiscal sustainability.

7. Once the recovery is firmly under way, euro area Member States should address the increased public debt levels by implementing sustainable medium-term fiscal strategies, with an emphasis on improving the quality of public finances, raising investment levels and supporting the green and digital transitions. Member States should focus on reforms that will promote private investment and will increase the productive capacity of the euro area.

8. The Eurogroup recognises that the Recovery and Resilience Facility (RRF) and the other components of Next Generation EU are sizable European tools at our disposal, which will facilitate a supportive fiscal stance throughout the Euro Area. They also offer a unique opportunity to channel investment into areas where it is needed the most, and to support growth-enhancing reforms, thereby

contributing to fiscal sustainability. It is therefore important to embed the RRF in medium-term budgetary strategies. The additional fiscal stimulus from the RRF will be particularly important for those euro area Member States where the RRF funding is sizeable relative to their GDP or total public investment. In that respect the timely implementation of the RRF remains of utmost priority.

9. In light of the persistent uncertainty, the Eurogroup will continue to monitor the economic situation and reflect on the fiscal stance of the euro area for the medium-term over the coming months. We will coordinate our actions to ensure a supportive and agile policy response. We look forward to the Commission's further fiscal policy guidance expected at the end of May, as part of the spring 2021 European Semester package and in light of the Commission spring economic forecast.