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Eurogroup
The President

Brussels, 22 December 2020
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To the members of the Eurogroup

Subject: Eurogroup meeting of 16 December 2020

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting held on 16 December by videoconference, where we had the pleasure of welcoming the new Finance Minister of Lithuania, Gintarė Skaistė, who outlined for us her government's programme.

The Commission was represented by Vice-President Valdis Dombrovskis and Commissioner Paolo Gentiloni. Our meeting was also attended by ECB President Christine Lagarde, ECB Executive Board member Fabio Panetta and ESM Managing Director Klaus Regling.

Before turning to our agenda for the meeting, I felt it was important to recall how far we have come this year. This was underlined at the Euro Summit on 11 December. Leaders welcomed the major step forward we achieved at our meeting at the end of November, in relation to the reform of the ESM and the early introduction of the backstop to the SRF. Leaders also mandated us to prepare, on a consensual basis, a stepwise and time-bound work plan on all the outstanding elements needed to complete the Banking Union. This will be a key priority in the first half of 2021, and beyond. Those discussions will, of course, involve all 27 Ministers in the 'inclusive' format.

1. Exchange of views on the macroeconomic situation

Our first substantive exchange of views covered economic developments and prospects. We took stock of the ECB's latest macroeconomic projections and Christine Lagarde also outlined the monetary policy recalibration decided by the Governing Council on 10 December to help to ensure favourable financing conditions. Ministers welcomed the full range of measures undertaken at

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national and European levels. All of these actions have been instrumental in containing the economic and social damage caused by the pandemic. We all acknowledged that the second wave is currently having a strong impact on the economy but we do not expect this to be comparable to the disruption seen during the first wave. We agreed that protecting citizens and businesses remains our utmost priority for the coming months.

As we look to 2021 the prospects are getting somewhat clearer though a lot still depends on the speed and effectiveness of our vaccination campaigns and on other developments, notably as regards trade relations. The precise timing of the economic turnaround may be uncertain, but I sensed cautious optimism at the prospects for a recovery starting next Spring and the importance of a successful and rapid implementation of the Recovery and Resilience Fund to support and consolidate this recovery. I am confident that we will face the challenges of the months ahead with the same unity of purpose and decisiveness as we have demonstrated throughout 2020.

2. Assessment of Euro Area Member States' Draft Budgetary Plans and of the Euro Area budgetary situation and prospects

Our regular December budgetary co-ordination exercise was adapted given the extraordinary circumstances this year. The focus is resolutely on co-ordinating our policies to shield citizens from economic harm. We have issued a statement (see annex) committing ourselves to timely, temporary and targeted policy measures, while not losing sight of fiscal sustainability in the medium-term. We have confirmed that in the euro area in 2021, a supportive fiscal stance will be appropriate to see us through this difficult period and to support the recovery.

In light of the second wave, we will continue to calibrate and regularly review our fiscal response in light of the changing circumstances. I believe the Eurogroup has a key role to play in facilitating the recovery in the months ahead. When the epidemiological and economic conditions allow it, Member States should phase out emergency measures while addressing the social and labour-market impact of the crisis. Member States should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3. Euro Area surveillance – 2021 Euro area Recommendations

We agreed on the draft Council recommendations on the economic policy of the euro area for 2021, as prepared by the EWG, for approval at the ECOFIN Council in January. The recommendations set five priorities namely: (i) ensuring a policy stance that supports the recovery; (ii) further improving convergence, resilience and sustainable and inclusive growth; (iii) strengthening national institutional frameworks; (iv) ensuring macro-financial stability; and (v) completing the EMU and strengthening the international role of the euro. The euro area recommendation will provide the framework for our policy work for the months ahead. In particular, it will be an important reference point for the development of our national Recovery and Resilience Plans.

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4. Miscellaneous

Under miscellaneous, I invited the Council Legal Service to report on a European Court of Justice Judgement[1] which is also important for the role of the Eurogroup.

Let me conclude this letter by thanking colleagues, and indeed my predecessor Mario Centeno, for all the outstanding work accomplished this year, under the most challenging of circumstances, as we have co-ordinated Europe's historically unprecedented economic policy response.

With my best wishes for the festive season

Yours sincerely,

Paschal DONOHOE

[1] Judgment in Joined Cases C-597/18P Council v K. Chrysostomides & Co. and Others, C-598/18 P Council v Bourdouvali and Others, C-603/18 P K.Chrysostomides & Co. and Others vCouncil andC-604/18 P Bourdouvali and Others vCouncil of 16 December 2020.

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Annex.

Eurogroup

16 December 2020

Eurogroup Statement on the Draft Budgetary Plans for 2021

1. The Eurogroup welcomes the Commission's analysis of the budgetary situation in the euro area as a whole and its Opinions on the individual draft budgetary plans (DBPs) of the euro area Member States, published on 18 November. This exercise is key to the coordination of fiscal policy in the euro area.
2. The euro area economy continues to experience the negative economic effects of the COVID-19 pandemic, with real GDP estimated to decline by 8% in 2020 in the Commission autumn forecast and with low inflation. While a return to growth is projected at about 4% in 2021, uncertainty and risks remain exceptionally large. The recovery is expected to be incomplete and uneven across Member States, and the economy continues operating below potential. Financing conditions are expected to remain favourable over the forecast horizon, according to the Commission forecast.
3. Against the backdrop of the general escape clause of the Stability and Growth Pact, activated in March 2020, which will remain active in 2021, all Member States have taken swift and sizeable fiscal measures to address the pandemic and its negative economic impact. Expenditure and revenue measures included in the Commission autumn forecast based on the Draft Budgetary Plans amount to 4.2% of GDP in 2020 and to 2.4% of GDP in 2021. These measures are in addition to the normal automatic stabilisers that are also helping to combat the pandemic. Ample liquidity support initiatives for households and businesses have also been put in place.
4. Most measures in 2020 focused on the emergency response, addressing the public health situation and compensating workers and firms for income losses due to lockdown measures and supply chain disruptions. The focus of the policy response is gradually shifting towards supporting the economic recovery, with two-thirds of the planned fiscal measures for 2021 geared to that objective.
5. The general government deficit in the euro area is expected to increase significantly, to 8¾% of GDP in 2020 and to improve in 2021 to 6½% of GDP in the Commission autumn forecast. This reflects both the ending of some of the emergency fiscal measures and the assumed economic recovery. In light of the second wave of the pandemic, it may be necessary, however, to extend these measures and additional support could be needed. In some cases new measures were announced since mid-October, which will weigh further on the deficit in 2021. The general government debt in the euro area is set to rise from 86% of GDP in 2019 to about 102% of GDP in 2020 and 2021. Favourable financing conditions help contain debt-servicing costs over the forecast horizon. The fiscal stance in the euro area is estimated to be highly expansionary in 2020. Excluding the temporary emergency measures, which are forecast to expire next year, the underlying fiscal stance is also expected to be expansionary in 2021.

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6. The Eurogroup agrees that a supportive fiscal stance in the euro area for 2021 is appropriate given the output loss to date and downside risks. Fiscal policies should remain supportive in all euro area Member States throughout 2021. Member States should continue to provide timely, well-targeted and temporary fiscal support, while safeguarding fiscal sustainability in the medium term. The fiscal response going forward should continue to be carefully calibrated and regularly reviewed, in light of the uncertainty associated with the pandemic, changing economic conditions, country specific circumstances and the need to avoid policy cliff edge effects.

7. Member States should continue coordinating actions to effectively address the pandemic, sustain the economy and support a sustainable recovery. When the epidemiological and economic conditions allow, Member States should phase out emergency measures while combatting the social and labour-market impact of the crisis. Member States should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Credible medium-term fiscal strategies are particularly important in this respect.

8. The Eurogroup recalls the importance of a growth-friendly composition of the public finances and robust fiscal frameworks across the euro area, which will support recovery efforts going forward and facilitate the green and digital transition of our economies.

9. The three safety nets agreed by the Eurogroup in April are complementing the unprecedented level of fiscal support put in place by national governments. Moreover, the European Council agreed in July upon the Next Generation EU plan. The successful and rapid implementation of Next Generation EU, including of the Recovery and Resilience Facility, will further contribute to supporting the recovery in the euro area.

10. We agree with the Commission's assessment that the individual Draft Budgetary Plans are overall in line with the fiscal policy recommendation adopted by the Council on 20 July 2020. Most of the measures in the Member States' Draft Budgetary Plans support economic activity against the background of considerable uncertainty.

11. Given the application of the general escape clause of the Stability and Growth Pact, the Commission also assessed the temporary nature of planned measures in Member States. We agree with the Commission's assessment that, in most Member States, the planned measures are broadly temporary. We note that some measures do not appear to be temporary or matched by offsetting measures in 2021 according to the Commission assessment. Even if those measures may address structural shortcomings, permanent measures that are not planned to be financed by revenue increases or compensatory expenditure reductions may affect fiscal sustainability in the medium term.

12. The Eurogroup notes the Commission's assessment that for Member States that already had high levels of government debt and high sustainability challenges in the medium-term prior to the COVID-19 pandemic, it is important to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved.

13. We note that Lithuania submitted a Draft Budgetary Plan on a no-policy-change basis and we invite Lithuania to submit an update as soon as possible.

14. The Eurogroup welcomes the Commission's intention to take stock of the application of the general escape clause in spring 2021 and reassess the budgetary situation taking into account updated macroeconomic projections.

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