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Statement by Mr. N'Sonde, Mr. Sidi Bouna, and Mr. Bangrim Kibassim on Euro Area (Preliminary)
Executive Board Meeting
December 18, 2020

We thank staff for an informative report and Mr. Pösö for his helpful Buff statement.

The authorities of the Euro Area member countries and regional institutions should be commended for the scale of the policy actions taken both at the national and regional levels to cushion the impact of the pandemic. These actions along with the easing of lockdown measures have led to a strong recovery following the severe economic downturn during the first half of the year. However, the recent reintroduction of lockdown measures to contain the second wave of the pandemic is expected to weaken the recovery underway. We also note that the Euro Area's economic outlook is subject to considerable uncertainty, notwithstanding recent developments on Covid-19 vaccines, and that growth is expected to remain lackluster over the medium-term. Inflation, as well, will remain below the ECB target for the foreseeable future. Against this backdrop, we welcome the authorities' continued policy focus on alleviating the impact of the pandemic while also providing support to the recovery. Active measures to promote a transition to a greener and more digitalized economy will also be essential.

We share the view that fiscal policy should continue to mitigate the effects of the second wave of the pandemic while promoting growth with the support of regional institutions. At the national level, countries should provide fiscal support to the households and firms that are most affected by the pandemic. For countries with high debt levels, delivering the necessary additional fiscal support to their economies will further weaken their fiscal positions which could in turn lead to adverse market reactions. *While Next Generation EU (NGEU) funds could help mitigate such pressures, we note from the report that a large share of these funds will be provided to countries as loans and therefore will add to their existing elevated debt levels. Staff comments are welcome.* We fully agree with the call to extend the escape clause in the Stability and Growth Pact until the recovery firmly takes hold. At the regional level, NGEU funds will provide a welcome boost to the investments needed to mitigate the impact of climate change while also promoting more digital economies.

However, we note that the planned investments will not be sufficient to meet the EU's carbon emissions reduction goals. *Could staff elaborate on the additional resources needed to reach those targets and on whether the EU authorities have identified corresponding sources of funding?*

We agree that the ECB should pursue its current accommodative monetary policy stance while addressing deflation risks. We note that headline inflation in the euro area has become negative for the first time since 2016. To support the recovery while also mitigating a further decline in the inflation rate, the ECB should stand ready to expand its asset purchase programs and consider additional options if the economic outlook deteriorates further. We welcome the review by the ECB of its monetary policy framework against the backdrop of a persistent below-target inflation for several years and take positive note of the progress achieved so far in the process to establish a symmetric point inflation target. *How does the proposed framework differ from existing symmetrical targets at other central banks in advanced economies? What are the distinct challenges of targeting a symmetric point inflation target in a currency union composed of 19 member countries, as opposed to the same framework in a single country?*

Continuing to support the financial system is essential to maintaining credit growth to the private sector and avoiding a further weakening of the recovery. We note that lending conditions have tightened lately with the resurgence of the second wave. Therefore, the measures taken at the start of the crisis, earlier this year, to support credit to the economy, including the decision to refrain from paying out dividends should be maintained. Furthermore, supporting borrowers affected by the crisis should be pursued until the recovery is established. At the same time, banks should further strengthen their capital and liquidity ratios in case the crisis is more protracted than currently estimated and reinforce prudential measures, especially in nonbank financial institutions. Addressing rising NPLs will also be key to sustaining the recovery. *We have taken note of the call to adopt credible NPL reduction strategies. Could staff elaborate on the shortcomings of current NPL strategies and on the specific measures needed to strengthen them?* We fully agree with the need to reinforce insolvency regimes and to accelerate progress in the efforts to strengthen the crisis management framework.

Structural reforms should be geared toward encouraging the reallocation of resources and investments in growing sectors to increase productivity while also ensuring that adequate measures are taken to contain the impact on affected workers and the poor and also to limit regional disparities. Measures to support firms should be maintained given the current second wave but should be temporary and targeted at the viable firms most affected by the pandemic, especially contact-intensive services such as travel and tourism. We welcome the incentives at both the national and regional levels to promote a transition to a greener and more digital economies. Similarly, we fully support the call to reform labor market policies and better adapt them to the accelerated pace of automation. Promoting training and providing targeted hiring subsidies will be essential. We note that the pandemic has also disproportionately affected the poor as well as poorer regions and contributed to an increase in inequality. Targeted policies in this area should give particular attention to the youth and the disadvantaged.

Finally, we see an important role for the Euro Area and the larger EU in advocating and promoting multilateral solutions to common challenges. We appreciate their contributons in this regard. Concerted and global actions are most needed at this juncture and beyond to address longstanding and emerging challenges. These include notably coping with climate change, promoting a rules-based international trade system, addressing debt vulnerabilities, and supporting low-income countries in their development financing agenda.