

SU/20/182

December 21, 2020

**The Chair's Summing Up  
Euro Area Policies  
Executive Board Meeting 20/123  
December 18, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' unprecedented policy response to cushion the pandemic's severe socio-economic impact. Directors noted that the pandemic's second wave has slowed the economic recovery and concurred that the outlook remains extremely uncertain, subject to both significant downside and upside risks from pandemic dynamics, including those related to recent vaccine developments.

Directors praised the Next Generation EU package, which aims to accelerate Europe's green and digital transformations. They stressed that its effectiveness will hinge on a quick implementation, the quality of spending, and its capacity to catalyze structural reforms. To meet EU emission reduction goals, more comprehensive carbon pricing and non-price policies would be needed.

Directors emphasized that the pandemic's resurgence requires further national fiscal support and warned against its premature withdrawal. They concurred that any further deterioration in the outlook would require additional fiscal support. Once the recovery gets underway, Directors recommended policies that facilitate resource reallocation, support sustainable growth, and achieve sound medium-term fiscal positions. They favored maintaining the fiscal rules' escape clause active until the recovery is firmly entrenched. More generally, Directors encouraged the authorities to explore options to enhance the current fiscal rules.

Directors commended the ECB's monetary policy response, including this month's recalibration of measures. Yet, they noted that further accommodation could prove necessary, especially if downside risks materialized. As prolonged accommodation could raise financial stability risks, Directors called for continued monitoring and appropriate use of macroprudential tools to address emerging vulnerabilities. Directors welcomed the ECB's Strategy Review and broadly agreed with staff's recommendation to adopt a well-communicated symmetric point inflation target.

Directors welcomed recent financial sector measures. They recommended that capital relief and conservation measures for banks be maintained until the recovery is well underway. Should it stall, more targeted borrower support should be made available. Directors noted that credible medium-term strategies to reduce nonperforming loans and

stronger insolvency regimes would support swift balance sheet repair. They also favored expanding the macroprudential perimeter to include nonbank financial institutions. Directors called for closing gaps in the EU's crisis management framework and advancing the financial sector architecture reforms.

Directors agreed that, as the recovery takes hold, policies should facilitate labor and capital reallocation toward viable firms and sectors. Noting the pandemic's pernicious distributional effects, they also called for targeted policies to safeguard vulnerable regions and address rising inequality. Directors praised the European authorities for their continued support and promotion of a global rules-based trading system and for their leadership in fighting climate change.

It is expected that the next consultation on euro area policies in the context of the Article IV obligations of member countries will be held on the standard 12-month cycle.