Eurogroup
The President

Brussels, 25 February 2020
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To the members of the Eurogroup

Subject: Eurogroup meeting of 17 February 2020

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting held on 17 February in Brussels.

The Commission was represented by Vice-President Valdis Dombrovskis and Commissioner Paolo Gentiloni. Our meeting was also attended by President of the ECB Christine Lagarde, ECB Executive Board Member Fabio Panetta and ESM Managing Director Klaus Regling. We also welcomed Christian Ebeke, Deputy Resident Representative, IMF Europe Office, who joined us for our discussion on Post Programme Surveillance in Ireland, and Professor Ottmar Edenhofer, Director and Chief Economist of the Potsdam Institute for Climate Impact Research (PIK), who joined us for our thematic discussion.

1. Presentation of the Commission priorities for the EMU

The Commission presented its priorities for the Economic and Monetary Union, including the main elements included in the June 2019 Commission communication on deepening EMU and the 2020 Commission Work Programme published on 29 January. There was broad support for the focus on Banking Union, finalising the ESM reform, advancing on Capital Markets Union, anti-money-laundering and EMU governance. We took stock of the progress achieved in recent years and had a useful exchange of views on how our work on EMU links with EU-wide priorities in the areas of climate, digitalisation and promoting more inclusive, stronger economic growth. Our work on EMU will ultimately also further strengthen the international role of the euro.

2. Presentation of the Commission Six- and Two-Pack review – euro area related issues

The Commission presented its economic governance review, with a focus on elements of the Six- and Two-Pack that are specifically applicable to the euro area. The Commission highlighted the successes in terms of deficit reduction and the turnaround achieved in programme countries, while acknowledging that there has been insufficient broad-based economic convergence and that the rules have become complex. There was broad support for an incremental approach to improving the framework, avoiding the need for Treaty change. Possible links between economic governance and new priorities such as green investments were also discussed. There is some support for targeted improvements to the rules to reduce complexity, avoid pro-cyclicality and respond to new strategic priorities, while preserving fiscal sustainability. Our deputies will prepare a more in-depth examination of the relevant issues in the coming months.

3. Thematic discussion on growth and jobs – Tax wedge on labour – focus on tax shift from labour to other forms of taxation

We discussed the tax wedge on labour in the euro area, focusing on shifting from labour to environmental taxes. The Commission showed that the average tax burden on labour has been decreasing in the euro area since we agreed on an annual benchmarking in 2015, in particular for low-income earners. The Commission also highlighted that its level still remains among the highest in the world and argued for redesigning and reorienting our tax regimes towards environmental purposes. Professor Edenhofer shared his views on why carbon pricing would be the most cost-efficient way of reducing emissions. He enlightened us on the key role of policy design when implementing carbon pricing policies, stressing the importance of political acceptability and the benefits of packaging reforms to cater for redistributional effects. Ministers echoed the importance of packaging reforms to ensure a fair allocation of the costs. They emphasised the importance of having stable sources of revenues and several argued in the favour of proceeding in a coordinated manner at European level. We also concurred that there is no one-size-fits-all approach, with an appropriate policy mix to be defined at national level. We agreed to work further on these issues, on the basis of the Commission's analysis and the sharing of experiences at national level.

4. Ireland - Post Programme Surveillance

We were debriefed by the Commission and the ECB on the main findings of the twelfth post-programme surveillance (PPS) mission to Ireland and by the ESM on its early warning system. The IMF also presented the results of its recent interim mission to Dublin. We welcomed the robust economic and fiscal performance of Ireland, while taking note of the downward risks in particular related to the future relationship between the EU and the UK. We encouraged the authorities to continue pursuing policies to bring down the stocks of NPLs and to enhance the resilience of the Irish economy and public finances to shocks.

5. Economic situation in the euro area - Commission winter forecast

The Commission presented its winter economic forecast. The euro area economy continues to grow, albeit at a subdued pace. Some of the downside risks we faced have receded slightly, including in the case of Brexit and trade tensions, but other risks, including with regard to the coronavirus will need to be monitored closely.

6. Euro Area Surveillance – 2020 Euro Area Recommendations

We agreed in principle on the draft Council recommendations on the economic policy of the euro area for 2020, as prepared by the EWG, for approval at the ECOFIN Council on 18 February.

7. Appointment of the President of the Eurogroup Working Group

Mr. Hans Vijlbrief resigned from his position as full-time President of the Eurogroup Working Group (EWG) on 29 January 2020. Following the election in the EWG on 6 February 2020, we appointed Tuomas Saarenheimo as President of the EWG as of 1 April 2020 and wished him much success in his new role.

Yours sincerely,

Mário CENTENO