IN-DEPTH ANALYSIS

European Parliament

Economic Dialogue with the President of the Eurogroup

ECON on 20 November 2018

Mário Centeno, President of the Eurogroup since 13 January 2018, has been invited to a regular Economic Dialogue, notably in accordance with Article 2ab of Regulation 1466/97 as amended. This briefing provides an overview of the ongoing work of the Eurogroup as regards Council recommendations to the Euro Area as a whole, public finances, macro-economic imbalances, financial adjustment programmes and the banking union. As the President of the Eurogroup, Mr Centeno has also been appointed as Chairman of the Board of Governors of the European Stability Mechanism. On 19 November, the Eurogroup met to discuss ways to strengthen the governance framework of the EMU. For a separate overview of the role of the President of the Eurogroup, please see separate EGOV briefing.

On 1 January 1999, 11 countries of the European Union (EU) adopted fixed their exchange rates, adopted a shared monetary policy under the European Central Bank and launched a new common currency: the euro. It was initially a currency used in financial markets and for cashless payments. Three years later, euro banknotes and coins entered into circulation. Today, the euro is the currency of 19 EU countries and over 340 million Europeans. It is one of the most important currencies in the world. On 1 January 2019, the Euro will celebrate its 20th anniversary.

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1. Latest economic developments

After the euro area growth reached a 10-year high at 2.4% in 2017, profiting from global growth and trade driving strong economic activity and investments in the EU and euro area, the recently published European Economic Forecast - Autumn 2018 projects the euro area GDP growth to **ease smoothly to 2.1% in 2018, and to further moderate to 1.9% in 2019 and 1.7% in 2020**. In the period 2018-2020, domestic demand is considered as a key driver for growth, driven by rising wages, with positive implications for employment and improvement of the budgetary situation in certain member states.

All EU28 Member States' economies are continuing to expand their GDP growth over the period 2018-2020 at a moderate level. This overall growth rate, however, masks wide disparities among euro area Member states, with Italy expected to have the lowest GDP growth (1.1% in 2018, 1.2% in 2019, 1.3% in 2020), and Ireland and Malta the highest growth (Ireland 7.8% in 2018, Malta 4.9% in 2019 and 4.4% in 2020).

The overall moderation of the economic momentum is mainly due to external factors, namely protectionist policies and their impact on international trade, and risks of overheating of the US economy, which might have repercussions on emerging and advanced economies as well. On-going Brexit negotiations might also have a negative impact on the economic developments.

The unemployment rate in the euro area has continued in 2018 its downward trend started in 2013, supported by a phase of economic expansion, which has led to further improvement in the labour market. Nevertheless, it differs greatly across euro area Member States, ranging in 2018 from 19.6% and 15.6% of the active population in Greece and Spain to 3.5% and 3.9% in Germany and the Netherlands. At aggregate euro area level it is expected to decline from 9.1% in 2017 to 8.4% in 2018 and to 7.9% in 2019 (compared to 7.6% in 2017, 6.9% in 2018 and 6.6% in 2019 at aggregate EU level).

Table: Comparison of the recent Commission's forecasts

		2018	**2019**	**2020**
		Real GDP growth		
Euro area	Autumn 2018	2.1	1.9	1.7
	Spring 2018	2.3	2.0	-
EU28	Autumn 2018	2.1	1.9	1.8
	Spring 2018	2.3	2.0	-
		HICP Inflation		
Euro area	Autumn 2018	1.8	1.8	1.6
	Spring 2018	1.5	1.6	-
EU28	Autumn 2018	2.0	2.0	1.8
	Spring 2018	1.7	1.8	-

Sources: Commission's autumn 2018 and spring 2018 forecasts.

Euro Area total HICP inflation increased from 2.0% in August to 2.1% in September 2018, due to higher energy and food prices. Current forecasts on oil prices are expected, according to the Commission 2018 autumn forecast, to be the main driver of short-term inflation forecasts, which will stay at current levels until then end of the year. Core inflation, which excludes energy and unprocessed food prices, has been stable in 2018 amid high levels of capacity utilisation and tightening labour markets and is assumed to show a lagged and gradual pass-through of wage growth into price inflation. In such scenario, headline inflation will be mainly driven in the next years by its core component, with labour markets tightening further, wage increasing and increasingly positive output gaps. Due to the rising oil prices, Euro Area headline inflation has therefore been revised up to 1.8% for 2018 and 2019 by 0.3 percentage points, compared to the spring 2018 forecasts and decrease to 1.6% in 2020, due to a moderate slowdown of economic activity. The difference between the highest inflation (Estonia, 3.5%) and lowest inflation (Ireland, 0.7%) in Euro Area Member States in 2018 is projected to decrease in 2019 and further in 2020.

After peaking in 2017 to a historically high level of 4.0% of GDP, the euro area current account surplus is expected to recede to 3.8% of GDP in 2018 and further to 3.6% over the period 2019-2020. It remains at high level, largely on account of a decreasing surplus in the goods trade balance and increasing in the primary income. The largest surplus contributions to the Euro Area continue to come from Germany and the Netherlands. In the EA Member States, the current accounts of France, Cyprus, and Lithuania are projected to remain negative over the entire period 2018-2020[1], while Malta, the Netherlands, Germany, Ireland and Slovenia are to register current account surpluses of at least 6% of GDP.

Box: Macroeconomic Impacts of Brexit (IMF, June 2018)

Weaker integration post-Brexit will hurt the EU-27. Empirical analysis by staff estimates that EU-27 real GDP would fall by up to 0.8 percent or 1.5 percent in the long-run relative to the baseline, in the event of a standard free trade agreement or a default to World Trade Organization (WTO) rules, respectively.

Impacts vary widely across countries. Detailed simulations from a multi-country general equilibrium model that mainly isolates direct and indirect trade effects suggest euro area real output would decline by 0.3 percent in the long run in the event of a standard free trade agreement, with Ireland's income level falling the most in the EU-27 by about 2 percent, followed by other countries such as Belgium, Luxembourg, Malta, and the Netherlands. These estimated impacts increase in a "hard Brexit" scenario, reaching an output loss of 0.5 percent for the EU-27, in which the estimated output loss for Ireland reaches 4 percent.

There will be no winners from Brexit. Integration between the EU and the UK has strengthened significantly over time, reflecting shared gains from the EU single market. It follows that the departure of the United Kingdom from the EU will represent a loss not only for the UK but also for the EU-27.

Source: Euro Area Policies: 2018 Article IV Consultation by IMF, June 2018

[1] Greece is expected to have a small current account deficit in 2018-19; Latvia and Portugal are expected to have small current account deficits in 2019-2020.

2. The 2018 euro area recommendations

Institutional perspective

Within the framework of the European Semester, the Council issues, on the basis of the Commission proposal, annual policy recommendations on the economic policy of the euro area (euro area recommendations) in accordance with Articles 121 and 136 of the Treaty of the Functioning of the European Union (TFEU). These recommendations typically cover fiscal, financial and structural issues, as well as institutional aspects of the Economic and Monetary Union (EMU).

At the euro area level, as such, there is (1) no institutional body that bears formal responsibility for the implementation of EA recommendations and (2) no formal mechanism to ensure implementation of these recommendations. Nevertheless, the Eurogroup takes into account the euro area recommendations when drawing up its work programme and undertakes "thematic discussions" on issues raised therein. The Council considers the Eurogroup as the appropriate forum for Member States to "take action", individually and collectively[2], to implement euro area recommendations.

Box: Eurogroup's work programme for the second half of 2018

According to an indicative work programme for the second half of 2018, released on 22 June 2018, the Eurogroup is to:

- Maintain its attention on structural policies to strengthen longer-term growth and employment and to improve the resilience of the economy.
- Continue to closely monitor the euro area member states' efforts to ensure sound fiscal policies, as well as the budgetary situation in the euro area as a whole. It will also assess the draft budgetary plans and the overall euro area budgetary situation and prospects.
- Continue to be involved in post-programme surveillance in Cyprus, Ireland, Portugal, Spain and Greece.
- Continue monitoring issues relevant for financial stability as well as the progress related to strengthening the banking union.
- Continue its role in the preparation of the Euro Summit meetings as needed.

At the national level, euro area countries are required to take into consideration these recommendations when (1) drafting their Stability Programmes and National Reform Programmes (to be submitted to the Commission and Council by April), and (2) implementing their country-specific recommendations (CSRs). In order to better take into account Euro Area wide considerations in the design of national policies, the EA recommendations are published six months ahead of the draft CSRs, as part of the initial package setting the priorities for the incoming fiscal cycle.

The Council and the Commission monitor the implementation of the euro area recommendations and take further actions as appropriate. The European Parliament oversees the European Semester, in particular by means of Economic Dialogues. It also contributes to the whole process via its resolutions, for example, on the European Semester for economic policy coordination (Annual Growth Survey). Moreover, the ECON Committee regularly requests external research papers on various topical issues (e.g. on how to improve the European Semester, how to measure and improve convergence in EMU, and most recently on the role of debt-sustainability assessments).

[2] In fact, the EA recommendations include, after the recitals and preceding the recommendations themselves, a sentence stating that the Council recommends "euro-area Member States take action within the Eurogroup, individually and collectively, (...)". This is a clear mandate for Member States to reflect the EA recommendations in their economic policies, to consider them as a matter of common concern and pointing to a coordination and monitoring role by the Eurogroup.

The European Fiscal Board also plays an important role in advising the Commission on the consistency between national fiscal stances and the fiscal stance of the Euro area and may, therefore, contribute to the debate on implementation of euro area recommendations. The European Fiscal Board regularly appears before the European Parliament for hearings.

Implementation of the 2018 euro area recommendations

The table in Annex 2 summarises Eurogroup discussions and policy actions aiming at implementing 2018 euro area recommendations (EAR). The Commission is expected to publish on 21 November 2018 the draft 2019 EAR.

There seems to be an uneven progress and attention devoted to the various issues under the EAR. As requested by the Euro Summits of December 2017 and June 2018, the subjects discussed in the EG meetings during 2018 are concentrated on moving forward issues as the deepening of the EMU and the Banking Union. In particular, one can note that:

- Banking Union and deepening of the EMU were discussed in all Eurogroup meetings and led to the setting up of a Eurogroup in inclusive format to involve non euro area Member States;
- Euro Area fiscal stance is often discussed and referred to in Eurogroup;
- Effectiveness and usefulness of spending reviews remain high on Eurogroup agenda, and follow the principles for improving expenditure allocation set out in September 2016;
- Ministers discussed automatic stabilisers (essentially unemployment benefits and taxation schemes) and how to reinforce their effectiveness, concluding that they should be combined with buffers built up in good times;
- On structural reforms, the Eurogroup held discussions on wage dynamics and taxation, as well on efficient allocation in labour and product markets;
- The Eurogroup discussed possible instruments for convergence and stabilisation of the EMU.

Focus on: Deepening of the EMU, including completion of Banking Union

2018 EA Recommendation 5: Make swift progress on completing the EMU, taking into account the Commission initiatives launched in autumn 2017, while fully respecting the Union's internal market and in an open and transparent manner towards non-euro-area Member States.

In January 2018, the Eurogroup agreed on focusing discussions on two priority areas: the completion of the Banking Union (including adherence to the Council 2016 roadmap, developing more specified steps of risk reduction and risk sharing) and the reform of the ESM (at this point focusing mainly on its functions). It was concluded that sequencing and holding stable and inclusive discussions would be essential for bringing all views on board. Since then, the Eurogroup had advanced discussions on both issues, in restricted and inclusive format, throughout each meeting in 2018 (22 January, 19 February, 12 March, 24 May, 21 June, 12 July, 7 September, 1 October and 5 November).

Most elements of a possible package agreement on deepening the EMU and on the Banking Union are still being discussed in view of the December Euro Summit. The 19 November and the 3 December meetings are expected to deliver an overall agreement.

In the meantime, on 19 June, **France and Germany** laid out a roadmap for the Euro Area (known as the Meseberg declaration) addressing ways forward in the deepening the EMU. The two countries endorsed a stronger role of the ESM, a common backstop, and called for increasing the efficiency of existing precautionary instruments (such as an ESM precautionary credit line). Both countries suggested as well to "start working on the possible introduction of Euro CaCs with single limb aggregation[3]", with the ESM mediating between the sovereign and its creditors. Regarding the Banking Union, they support further steps in reducing and sharing risk in the financial sector, in the appropriate sequence. France and Germany confirmed their pledge to making decisive progress towards a Capital Markets Union.

In this context, the two Member States also propose, in a statement issued on the 19 November, a Eurozone budget as an instrument to promote competitiveness, convergence and stabilisation of the euro area. Such facility would (a) be limited to the euro area, as it requires higher convergence and competitiveness to facilitate stabilisation insofar the usual instruments of monetary policy and exchange rate adjustment are absent and euro area member states follow stricter economic policy coordination rules; (b) be used for foster convergence and incentivise growth enhancing reform implementation, "co-financing growth enhancing public expenditures such as investments, research and development, innovation and human capital"; (c) would be voted by all 27 member states as part of the Union budget; (d) be based in articles 175/3 (specific action outside Structural Funds), 182 (research and technology development), 173 (competitiveness of industry) and 136 (provisions specific to euro area member states) of the TFUE; (e) be part of the Union budget and financed by external assigned revenues (the financial transaction tax being mentioned) and european resources (reform delivery tool) on the basis of regular contributions from euro area member states channelled to the EU budget on the basis of an intergovernmental agreement; (f) only euro area member states would participate; (g) the agreement would set the basis for contributions and a binding maximum amount; (h) its governance would be that of the EU budget but under the strategic guidance of the Euro Summit and operationalisation by Eurogroup on the basis of short term programmes designed by member states and approved by the Commission; (i) member states would only receive funding if in compliance with their obligations under the european economic coordination framework and fiscal rules; (j) multiannual cap to be negotiated in the context of the MFF. The statement does not mention an overall size for the euro area budget, leaving that to be defined in the intergovernamental agreement.

On 1 November, the **Finance Ministers of Czech Republic, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden and Slovakia** presented their views on the issue, highlighting the importance of the ESM for financial stability beyond the euro area and their commitment to an effective ESM backing up the Single Resolution Fund. They also pointed out that the ESM as a lender should "bear the responsibility for assessing and approving the conditionality and determining the financing terms, including size and maturity of financial assistance". Their statement points out that financial assistance requires, under the Treaty terms, strict conditionality, and that if debt sustainability cannot be assured, appropriate measures should be taken, in cooperation with the private creditors. The countries also state that "single limb CACs" could render more predictable the financial assistance framework. ESM should be tasked with assessing the repayment capacity of a requesting Member State, taking into account the debt sustainability assessments produced by other institutions, have access to enough and timely information and be fully involved in program preparation and ex post monitoring. Non euro area Member States should

[3] "Single limb aggregation" allow altering the conditions of various issuances of debt instruments with a single vote across all affected securities.

be granted equal rights and obligations to the SRF common backstop when acceding the Banking Union.

3. Public finances

2018 EA Recommendation 2: Deliver the planned broadly neutral overall fiscal stance for the euro area, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances, in particular where debt ratios are high, and supporting the economy, while fully respecting the Stability and Growth Pact and taking into account fiscal space and spillovers across Member States. Use the improving economic conditions to rebuild fiscal buffers, while continuing to strengthen economic growth potential. Ensure the effective functioning of national fiscal frameworks. Pursue policies which support investment and improve the quality and composition of public finances, including by making use of spending reviews and adopting growth-friendly and fair tax structures. Take and implement measures to reduce debt bias in taxation and fight aggressive tax-planning to ensure a level playing field, ensure that taxpayers are treated fairly and safeguard public finances and stability within the euro area. This includes continuing work on the Common Consolidated Corporate Tax Basis.

Implementation of the EU fiscal framework

By mid-October 2018, all euro area Member States submitted their 2019 **Draft Budgetary Plans** (DBPs); it was the first time for Greece.

On 19 October 2018, the COM sent **letters** to **Belgium**, **France**, **Portugal** and **Spain** asking the respective governments for clarifications on the compliance of the respective fiscal effort in 2019 with the requirements of the preventive arm of the SGP; furthermore, the COM sent on 19 October 2018 a letter to **Slovenia** asking the government to submit an updated 2019 DBP, since the current one does not include new planned policy measures ("no policy change DBP"). All countries replied to the COM on 22 October (see here replies by **Belgium**, **France**, **Portugal**, **Slovenia** and **Spain**).

On 23 October 2018, in accordance with Regulation 473/2013, the COM requested Italy to submit within three weeks **a revised Draft Budgetary Plan**, since the COM considers that there is a "*particularly serious non-compliance*" with the Italian budgetary obligations under the SGP (see next section for further information). On 13 November, the Italian Minister of Finance sent a revised DBP and an accompanying letter to the Commission. The Minister confirmed the fiscal objectives of the initial DBP.

The **COM Opinions on all DBPs** is expected to be published on 21 November and the Eurogroup is expected to discuss them on 3 December 2018 (see separate EGOV briefing for more details on the budgetary coordination during the autumn cycle of the European Semester).

Spain is currently the only remaining EU Member State subject to an **Excessive Deficit Procedure** (EDP) with a dead-line for correction by 2018, compared to 24 Member States in 2011[4]. For more details on the latest steps on the implementation of the SGP, please see separate EGOV briefing.

In 2017, 10 Euro area Member States (DE, IE, CY, LV, LT, LU, MT, NL, AT and FI) were close, at or above their **medium-term budgetary objectives** (MTOs) and 8 countries (BE, EE, ES, FR, IT, PT, SI and SK)

[4] On 15 October 2018, Romania and Hungary submitted reports on effective action in response to Council recommendations of June 2018 requesting from both countries the correction of significant deviations from the MTO under the preventive arm of the SGP. Assessments by the COM will follow. Romania is already for more than a year in a **Significant Deviation Procedure**.

had not yet reached their MTO (please see separate EGOV briefing for more information on the concept of MTOs).

While, in 2017, the **structural budget position** improved in 20 Member States, it is expected to improve in only 9 Member States in 2018; therefore, fewer Member States might be close or at the MTO in 2018.

Table and Figure below show the **structural budget balances as forecast by the COM for 2018 and 2019,** compared to the structural efforts recommended by the Council under the preventive arm of SGP and the level and target years of the country specific MTOs. While these comparisons indicate for the euro area that Germany, Estonia, Ireland, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands and Austria are in line with the recommended effort by the Council, the other countries are not necessarily in breach of the respective Council recommendations[5].

Table: Structural budgetary efforts for EA Member States in 2018 and 2019

Member State	MTO (structural budget position = sbp)	Recommended annual structural effort (percentage points=pp) (to adjust towards or remain at the MTO)		Projections on the structural budget balance (COM Autumn 2018 forecast)			
		In 2018 (2017/2018 CSRs)	In 2019 (2018 CSRs)	In 2018		In 2019	
				pp	sbp	pp	sbp
BE	0.0 sbp	0.6 pp	0.6 pp	0.1 pp	-1.3 sbp	0.0 pp	-1.3 sbp
DE	-0.5 sbp	In line with its MTO	In line with its MTO	0.6 pp	1.4 sbp	-0.4 pp	1.0 sbp
EE	-0.5 sbp	-0.2 pp	0.6 pp	0.8 pp	-0.8 sbp	0.1 pp	-0.7 sbp
IE	-0.5 sbp	0.6 pp	0.1 pp	0.0 pp	-0.2 sbp	-0.3 pp	-0.5 sbp
FR	-0.4 sbp	0.6 pp	0.6 pp	-0.1 pp	-2.5 sbp	0.2 pp	-2.3 sbp
IT	0.0 sbp	0.6 pp	0.6 pp	0.0 pp	- 1.8 sbp	-1.2 pp	-3.0 sbp
CY	0.0 sbp	-0.4 pp	In line with its MTO	0.2 pp	1.7 sbp	-0.5 pp	1.2 sbp
LV	-1.0 sbp	-0.3 pp	0.4 pp	-0.6 pp	-1.8 sbp	0.1 pp	-1.7 sbp
LT	-1.0 sbp	-0.6	In line with its MTO	0.1 pp	-0.6 sbp	0.1 pp	-0.5 sbp
LU	-0.5 sbp	In line with its MTO	In line with its MTO	-0.3 pp	1.3 sbp	-0.2 pp	1.1 sbp
MT	0.0 sbp	In line with its MTO	In line with its MTO	-2.2 pp	0.9 sbp	0.0 pp	0.9 sbp
NL	-0.5 sbp	In line with its MTO	In line with its MTO	-0.4 pp	0.3 sbp	-0.6 pp	-0.3 sbp
AT	-0.5 sbp	-0.2 pp	0.3 pp	0.0 pp	-0.8 sbp	0.4 pp	-0.4 sbp
PT	0.25 sbp	0.6 pp	0.6 pp	0.4 pp	-0.9 sbp	0.0 pp	-0.9 sbp
SI	0.25 sbp	1.0 pp	0.65 pp	-0.4 pp	-0.8 sbp	-0.2 pp	-1.0 sbp
SK	-0.5 sbp	0.5 pp	0.5 pp	0.1 pp	-0.8 sbp	0.0 pp	-0.8 sbp
FI	-0.5 sbp	-0.1 pp	-0.2 pp	-0.6 pp	-0.8 sbp	0.2 pp	-0.6 sbp

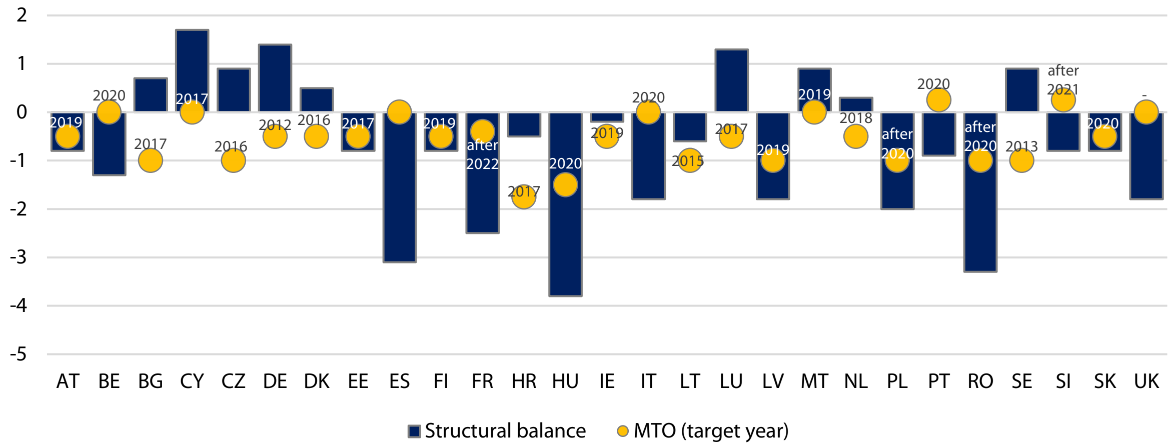
Sources: COM autumn 2018 forecast for the projected structural budget balances; CSRs, including their recitals, adopted by the Council in July 2017 and 2018 under the preventive arm of the SGP (the country specific sources in a separate EGOV briefing on SGP implementation); Significant Deviation Procedures for HU and RO.

[5] The assessment of compliance includes other aspects than the change in the structural balance, such as: the magnitude of deviations, bottom-up assessments of individual measures, compliance with expenditure benchmarks, change in the primary structural balance (=structural balances adjusted by interest payments) and relevant factors such as the implementation of reforms with a positive impact on the growth potential. See code of conduct on the implementation of the SGP .

Notes: In the case a Member State does not have a quantitative fiscal effort request for 2018 and/or 2019, it is indicated in the table as being "in line with its MTO" (this may cover cases (1) where the actual structural budget balance is above the target or (2) below the target due to temporarily flexibility or (3) only with a minor deviation below the target).

The figure below shows, for each Member State, the distance of the structural balances from the country specific MTOs.

Figure: Comparison of structural balances in 2018 with the MTOs and their target years



Note: Sources: Table 41 of the statistical annex to the COM autumn 2018 forecast (structural balances) and Country Specific Recommendations 2012, 2013, 2014, 2015, 2016, 2017, 2018 and Stability and Convergence Programmes 2012-2018 (levels and target years of the MTOs),

Euro Area fiscal stance and developments

According to the Commission's autumn 2018 forecast:

- Growth in the euro area and in the EU28 is forecast to moderate from 2.4% in 2017 to 2.1% in 2018, before easing further to 1.9% in 2019.
- The euro area's general government deficit is expected to decrease from 1.0% of GDP in 2017 to 0.6% in 2018 and to increase to 0.8% in 2019. Like in the COM spring 2018 forecast, 2018 is still expected to be the first year in the Economic and Monetary Union in which all Member States achieve **nominal budget deficits which are lower than 3% of GDP**. The euro area's **debt-GDP ratio** is also forecast to fall to 84.9% in 2019, with declines in almost all Member States.

The **fiscal policy stance** for the euro area, as measured by the change in the structural balance, is expected to turn slightly expansionary in 2019, after strong consolidation achieved between 2011 and 2014, marginally expansionary in 2016 and marginally restrictive in 2017 and 2018 (the COM qualifies the fiscal stance in the period 2015-2018 as "broadly neutral"), see Table below (positive changes of structural balance indicate consolidation and negative changes fiscal stimulus/expansion).

Table: Structural balance and fiscal stance of the euro area as a whole

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Structural balance	-4,3	-3,6	-2,1	-1,3	-0,9	-0,9	-1,0	-0,8	-0,7	-1,0
Annual change of structural balance (=fiscal stance)	n.a.	0,7	1,5	0,8	0,4	0,0	-0,1	0,2	0,1	-0,3

Sources: Table 41 of the statistical annex to the COM autumn 2018 forecast (and for the years before 2014: COM online database AMECO); n.a. = 'not available'.

Despite the improvement of the euro area aggregate structural balance in 2017 (see illustrated in above table), the 2018 annual report of the European Fiscal Board notes:

"*The implementation of the SGP did not adapt to the much improved macroeconomic conditions. In its 2017 annual report, the EFB argued that some modulation of flexibility and discretion across the cycle was preferable to a very strict and unconditional implementation of EU fiscal rules.* ***In spite of the much improved economic situation and balance of risks in 2017, the overall thrust in the implementation and interpretation of rules was not adjusted. Elements of asymmetry in the Pact precluded any adaptation of the adjustment requirements to the macroeconomic situation, and elements of judgement continued to be used to soften the constraints imposed by the rules.*** *The degree of forbearance is reflected in the national distribution of the fiscal adjustment. Especially high-debt countries and countries in the excessive deficit procedure minimised fiscal consolidation, while some countries with fiscal space decided to do more than required. As a result, the opportunities offered by the stronger-than-expected recovery were used in a lopsided fashion: less by those who should have taken advantage of the opportunity and more by those who already enjoyed a more comfortable fiscal position*" and "***In sum, 2017 was a clear example of both the asymmetry of the EU fiscal rules and the notorious difficulty of getting the timing of discretion right.***"

Focus on: Italy's 2019 DBP

Current Council Recommendation under the preventive arm of the SGP

The 2018 fiscal CSR for Italy adopted by the Council in July 2018 is the following:
"*Ensure that the nominal growth rate of* ***net primary government expenditure does not exceed 0.1 % in 2019****, corresponding to an* ***annual structural adjustment of 0.6 % of GDP****. Use windfall gains to accelerate the reduction of the general government debt ratio. Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. Reduce the share of old-age pensions in public spending to create space for other social spending.*"

In accordance with EU economic governance rules (Regulation 473/2013), the Italian Government submitted its 2019 Draft Budgetary Plan to the Commission on 16 October. The plan sets the deficit to 2.4% of GDP in 2019 (with the structural deficit of 0.8%), for which the Government had obtained the Parliamentary approval. For 2020-21, the deficit targets are 2.1 percent and 1.8 percent of GDP, respectively, underpinned by a VAT safeguard clause The Government projected real GDP growth to raise from 1.2% in 2018 to 1.5% in 2019 and 1.6% in 2020, before decreasing to 1.4% in 2021, with the debt-to-GDP ratio falling from an estimated 130.9% in 2018 to 126.7% in 2021. The Government emphasised that the projected deficit ratios were well below the 3% limit.

Box: The case of 'particular serious non-compliance' of a DBP

In case the COM identifies "particularly serious non-compliance" with the budgetary obligations laid down in the SGP, Article 7 of the "two pack" Regulation 473/2013 provides that the COM shall request the Member State concerned to submit a revised DBP in accordance with a specific timeline and procedure:

The consolidated "Two Pack Code of Conduct" (14928/14) (page 9) provides a non-exhaustive list of situations of "particularly serious non-compliance". This list includes:

1) If an obvious breach of the deficit and/or debt criteria laid down in Article 126(2) of the TFEU would follow from the implementation of the DBP;

2) For Member States in the preventive arm of the SGP, if the fiscal effort envisaged in the DBP falls clearly short of the fiscal effort recommended by the Council in accordance with the existing Council recommendation based on the Article 121(4) of the TFEU;

3) For Member States in the corrective arm of the SGP, if the fiscal effort envisaged in the DBP, i.e. the forecast change in the structural balance, falls clearly short of the recommended fiscal effort by the Council in accordance with Article 126(7) or 126(9) TFEU;

4) Where the implementation of the initial budgetary plan would put at risk the financial stability of the Member State concerned or risk jeopardizing the proper functioning of the Economic and Monetary Union.

The surveillance of DBPs is meant to give an early warning of risks of deviation from the current commitments with obligations under the SGP, as well as to serve as an instrument to assess whether the orientations issued during the European Semester are being put into practice. Sanction/fines are not *per se* part of this early warning surveillance. However, the Commission opinions on the DBPs may be taken into account as aggravating factors in its assessments with the compliance with the SGP based on the preventive or corrective arm of the SGP. For further information on the surveillance of DBPs, see a separate EGOV briefing).

The 2019 DBP implies a nominal rate of growth of net primary government expenditure of 2.7%, which exceeds the recommended maximum increase of 0.1%. The structural deterioration in 2019 amounts to 0.8% of GDP, which points to a significant deviation from the structural improvement of 0.6% recommended by the Council on 13 July 2018. This means that, in structural terms, the budget plan shows a deviation of around 1.4%.

Exchange of letters

On 18 October, the Commission sent a letter to the Italian Government, where it sought clarification on the planned deviation from the recommendations addressed to Italy, which were considered a "source of serious concern to the Commission." After recalling the targets recommended to Italy, the Commission assessed that the proposed net primary government expenditure nominal rate of growth and the structural deterioration in 2019 point to a "significant deviation" of SGP commitments. The Commission also pointed out that "*Italy's plans would not ensure compliance with the debt reduction benchmark agreed by all Member States*" and that the "*conclusions of the Article 126(3) [of the TFUE] report may need to be reviewed if such broad compliance can no longer be established in light of the planned significant deviation.*". In May 2018, the Commission had adopted a similar report that, taking into consideration all the relevant factors and the fact that Italy was compliant with the preventive arm of the SGP, concluded that the debt criterion should be considered complied with (even if the debt did not decrease by the amount required in the

Regulation 1467/1997). The Commission further noted that the MTO is not planned to be achieved and that the forecasts underpinning the Government plans were neither produced nor endorsed by the Italian Independent Fiscal Institution (PBO). The Commission concluded that "*Those three factors would seem to point to a "particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact" as set out in Article 7(2) of Regulation (EU) No. 473/2013.*" The Commission asked Italy's views by the 22th October.

The Italian authorities reacted on 22 October. While acknowledging that its budget was not in line with Italy´s current commitments under the SGP, the Government argued that the revised deficit levels were necessary to restore growth and repositioning citizens' economic conditions. The authorities stated that even if the PBO forecasts were not adhered to, the Government had explained to Parliament the reasons for doing so. The Government also pointed out that it remained convinced that the foreseen public and private investment would be implemented, due to proposed simplification and rationalisation measures. It also recognised that the DBP forecasts on interest rates are lower than those recently experienced, but considered them still in line with past average levels, and that they would stabilise once markets become familiar with the budget proposals and the structural reforms therein. The Government also reaffirmed its intention to strictly adhere to the targets established, intervening if necessary to correct deviations, as well as its commitment to the EU and the euro, arguing that the set targets will not affect financial stability in Italy or elsewhere in the euro area.

On the 23 October the Commission issued its opinion on the Italian BDP, requesting by 13 November a DBP revised in line with the Council recommendations addressed to Italy in July 2018. The Commission identified in the DBP 2019 a particularly serious non-compliance with Italian commitments under the SGP and European Semester. This assessment is based on (a) impact of the deficit-increasing measures, including on the expenditure side, (b) the fact that Italy does not plan to reach the MTO within the forecast horizon, i.e. by 2021, (c) the projected non-compliance with the debt reduction benchmark in 2018 and 2019, with large downsize risks. The Commissions' opinion also pointed out the fact that the macroeconomic forecasts were not produced or endorsed by PBO and that the proposed measures indicate "*a clear risk of backtracking on reforms that Italy had adopted (...) as well as with regard to the structural fiscal aspects of the recommendations addressed to Italy by the Council on 13 July 2018*."

On 29 October, the Director General of the Commission's DG ECFIN sent a letter to the Director General of the Italian Finance Ministry, asking for any "relevant factors" to be taken into account by the Commission, in view of the preparation of a report under Article 126(3) TFEU. A new report under Art. 126(3) could claim that Italy is no more compliant with the preventive arm of the SGP, and the Commission is initiating the procedure to open an EDP against Italy. The Council should open a formal EDP, with specific targets and deadlines, which Italy should comply with. If it does not, the Council may impose sanctions, ranging from a non-interest-bearing deposit until the deficit has been corrected, or even a fine worth up to 0.5% of GDP. The Council could also decide to suspend part or all of the commitments or payments linked to European Structural and Investment Funds in Italy (recital 24 of Regulation 1303/2013).

At its meeting of 5 November, the Eurogroup discussed the Commission opinion on Italy's DBP for 2019 and agreed with and agreed with the Commission assessment. The Eurogroup recalled "*the importance of sound public finances and their coordination within the framework of the SGP as a prerequisite for durable and sustainable economic growth and a smooth functioning of EMU. The focus on sufficient debt reduction and the path to the Medium-Term Budgetary Objective (MTO) are an integral part of the SGP.*" The Eurogroup *"looks forward for Italy and the Commission to engage in an open and constructive dialogue and for Italy to cooperate closely with the Commission in the preparation of a revised budgetary plan which is in line with the SGP.*"

Meanwhile, on 8 November, the Commission published its Autumn 2018 Forecast, where it sets the estimates for Italian GDP growth at 1.2% in 2019 and 1.3% in 2020. The government deficit is expected to be 2.9% of GDP in 2019 and 3.1% of GDP in 2020.

On 8 November, the Finance Minister stated that "*the Commission's forecasts are very different from those of the Italian Government, and are the outcome of a partial and superficial analysis of the DBP, of the budget law and of the public finances, notwithstanding clarifications and information provided by Italy... Nevertheless, this technical misstep will not affect the constructive dialogue between the Government and the Commission*.".

On 13 November, the IMF published the staff's conclusions on its annual Article IV visit to Italy: it projects annual economic growth of around 1% in 2018-20, declining thereafter. The overall deficit for 2019 is projected at about 2, 7% of GDP. For 2020-21, deficits are projected at about 2.8%-2.9%. The IMF also points that "*Elevated yields affect the cost and availability of banks' funding and weaken their balance sheets. We project public debt to remain at around 130 percent of GDP over the next 3 years*."

On 13 November, the Italian Minister of Finance sent a revised DBP and an accompanying letter to the Commission. The Minister confirmed the fiscal objectives of the Government, in view of contrasting the slowdown of the economic cycle, while facing poverty and social distress, as well some "distortion" introduced with recent pension reforms. He confirmed that the 2.4% deficit for 2019 is calculated on the "trend GDP" (without the new expansionary measures) and that therefore such target is very prudent. The new DBP sets privatisations at 1% of GDP in 2019 with the aim to have a dampening effect on the debt ratio. Recent natural events call for urgent public works, which should be considered as exceptional and would allow for the application of flexibility clauses. Lastly, the Minister notes that the Government must inform timely the Parliament of possible deviations from the set objectives, and that in such a case the Minister must take timely and appropriate measures, while respecting the Constitution.

On the same day, the Ministry also stated that the Treasury Administration sent a report to the Commission, presenting the "relevant factors affecting the debt trajectory", as requested by the Commission services in October.

What next?

The Commission may trigger at any time an assessment of compliance with the SGP based either on the nominal target, the structural target, on the debt level, or a combination of these. In the case of a *prima facie* observed non-compliance with the provisions of the SGP, the Commission has two main options:

- Either make a report to assess whether an Excessive Deficit Procedure could be open based on the debt criterion of the SGP, taking into account all relevant factors (including the respect the required structural adjustment), or
- Open a Significant Deviation Procedure under the preventive arm of the SGP.

In previous years (the latest in May 2018, as stated above) the Commission made a report under Article 126/3 of the TFEU. The reports concluded that Italy was still compliant with the debt criteria based on an overall assessment, including the broad respect of the structural adjustment path. However, since the Italian 2019 DBP deviates significantly from the structural adjustment required by the Council in July 2018, the main argument used earlier to consider Italy compliant with the debt rule seems not to be longer valid. Therefore, it is most likely that the Commission will prepare a report under Art. 126(3) of the TFEU assessing compliance with the debt criterion. In this case, this would be the first time the debt criteria would be used to open an EDP.

Box: Opening of an Excessive Deficit Procedure (EDP)

The EDP is governed by Article 126 of the TFEU, the Protocol No 12 annexed to the Treaty and the amended Regulation (EC) No 1467/97. In accordance with the amended Regulation, an EDP is triggered by the deficit criterion or the debt criterion:

- Deficit criterion: A general government deficit is considered to be excessive if it is higher than the reference value of 3% of GDP at market prices; or
- Debt criterion: debt is higher than 60% of GDP and the annual debt reduction target of 1/20 of the debt in excess of the 60% threshold has not been achieved over the last three years.

Articles 126(3) to 126(6) of the TFEU lay down the procedure for assessing and deciding on an excessive deficit: Under Art. 126(3), the Commission prepares a report if a Member State does not comply with, or if there is a risk that it will not comply with, at least one of the two criteria. The Economic and Financial Committee formulates an opinion on this report. If the Commission sees an excessive deficit as a given (or as a possible occurrence), it addresses an opinion to the Member State concerned and informs the Council. Regulation 1467/97 provides details on the relevant factors to be taken into account within a report under Art. 126(3) of the TFEU, presenting a list that falls under three headings: developments in the medium-term economic position, developments in the medium-term budgetary position and developments in the medium-term government debt position. However, the Regulation states that the list is not exhaustive and that *"The Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with deficit and debt criteria and which the Member State has put forward to the Council and the Commission (...)."*

In accordance with Art. 12 of Regulation 473/2013, the Commission must consider the extent to which the Member State concerned has taken into account the Commission's opinion on the DBP when the Commission prepares a report under Article 126(3) TFEU on the existence of an excessive deficit.

Box: Opening of a Significant Deviation Procedure under the preventive arm of the SGP

As defined in Articles 6(3) and 10(3) of Regulation (EC) 1466/97the assessment of whether the deviation from the MTO or the adjustment towards the MTO is significant shall, in particular, include the following criteria:

(i) for a Member State that has not reached the MTO: A significant deviation is defined as a deviation of at least 0.5% of GDP in a single year or at least 0.25% of GDP on average per year in two consecutive years;

(ii) when assessing expenditure developments net of discretionary revenue measures: The deviation is significant if it has a total impact on the government balance of at least 0.5% of GDP in a single year or cumulatively in two consecutive years.

Where a conclusion of overall significant deviation (taking into account additional deviations allowed by the clauses pertaining to the flexibility under the SGP) based on an overall assessment and on **validated data** (therefore *a posteriori*), the Commission shall trigger a Significant Deviation Procedure (SDP). It starts with a COM warning to the Member State in question and can lead to an interest-bearing deposit being required, for euro area Member States. Based on revised data for the previous year(s) (in accordance with Council Regulation (EC) No 479/2009 of 25 May 2009), which are usually made public by Eurostat at end of October of the current year (see Eurostat website), the triggering of a SDP is in principle possible during the autumn, if the revised structural balance data for the previous year show a deterioration compared to the COM assessment of spring of the current year.

Focus on: The role of Debt Sustainability Assessments (summary of external papers)

In November 2018, two external briefing papers on "Debt Sustainability Analysis: the State of the Art" were published. The papers were commissioned by EGOV, upon request of the ECON Committee.

The paper of CEPS (authors: Cinzia Alcidi and Daniel Gros) starts by differentiating DSA as a standard instrument of fiscal surveillance in normal times ("economic surveillance DSAs") and as a tool for taking decisions about the provision of financial support ("hard DSAs").

Given the fundamental relationships between debt, deficits, interest rates and growth, the result of a DSA depends ultimately on the assumption about parameters that are estimated on historical regularities about the politically sustainability of high primary surpluses or the link between interest rates and debt. One caveat of this approach is that the application of empirical regularities from the rest of the world and the pre-euro period may be misleading for euro area countries. In practice, there is a small difference between the IMF and the Commission in the parameter linking the risk premium to the debt levels. This difference, however, can lead to quite different results in the longer term projections, because of the feed-back loop between interest costs and debt ratios.

One general difference between the IMF and the COM is that the IMF uses a five-year horizon of its Word Economic Outlook projections for both "surveillance" and "hard" DSA, while the COM has usually a 10-year horizon.

Differences are more important for a "hard DSAs" than for "economic surveillance DSAs", basically because the size and scope of the potential financial assistance differ of the IMF relative the European institutions. The IMF provides limited amounts of financing of a short- to medium-term nature and with a substantial top up over risk free rates. Accordingly, the DSAs of the IMF focusses normally on the ability of a country to finance itself in the market and repay the IMF after 5 years. Financing by the European Stability Mechanism (ESM) in the Euro Area, by contrast, can be large, cheap and of such a long maturity that the program itself can have a major impact on the long-term debt sustainability.

On fiscal sustainability indicators used in the context of "economic surveillance DSAs", the authors argue they are somewhat less judgmental: on the one hand, certain indicators have proven to be useful warning signals of future fiscal stress, on the other hand, they often point to different directions and it is difficult to extrapolate a univocal conclusion, which is taken seriously by the country concerned.

The paper by Giancarlo Corsetti (Cambridge University) notes that the approach to Debt Sustainability Assessments (DSAs) has substantially evolved after the global crisis. The main goal now is to improve the detection of risks. To this scope, DSAs cover an increasing number of indicators; systematically include both implicit and contingent liabilities, and use statistical methods to quantify highly risky "tail events". Furthermore, DSAs more and more often set "debt limits", by adopting thresholds for debt and payment flows, which are used to single out enhanced vulnerability.

While these developments mark true progress, this paper notes that some issues should be incorporated to improve the predictive capacity of DSA, focusing mainly on liquidity (versus solvency) risks and contagion risks. The identification of fixed "debt thresholds" is another critical area, limiting DSA effectiveness: the author argues that such limits should not be fix, neither across countries nor over time.

In his paper Prof Corsetti, explains why DSA should embed potentially available official support: according to this approach, therefore, an incomplete lending architecture as currently in the EMU constitutes a hurdle for an effective DSA. The author also shows that different risks require different financial assistance tools, and that the (negative) role of self-fulfilling expectations can be prevented by designing appropriate instruments, while taking into account moral hazard aspects.

The paper concludes with a comparative assessment of current standard DSAs models and applications, suggests directions for further improvement, and discusses the correct use of DSAs in light of the strengths and weaknesses inherent the underlying methodologies.

4. Macro-economic imbalances

> *2018 EA Recommendation 1: Pursue policies that support sustainable and inclusive growth and improve resilience, rebalancing and convergence. Make significant progress towards completing the Single Market, particularly in services, including financial, digital, energy and transport, by, inter alia, implementing relevant product market reforms at national level. Given the positive cyclical conditions, all Member States should prioritise reforms that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce inequality. Member States with current-account deficits or high external debt should, in addition, aim at containing growth in unit labour costs and seek to improve their competitiveness. Member States with large current-account surpluses should, in addition, create the conditions to promote wage growth in a manner that respects the role of social partners and implement as a priority measures that foster investment and support domestic demand and growth potential, thereby also facilitating rebalancing.*

At the beginning of the 2018 European Semester, the **Commission noted that the euro area continues to have the world's largest current account surplus:** it peaked at 4% of GDP in 2017, mainly due to a surplus from the trade in services and an increase in the net primary income[6] surplus. The latest Commission forecast sets it at 3.8% of GDP in 2018. The Commission is expected to adopt its 2019 Alert Mechanism Report on 21 November 2018.

In the past few years, more and more Member States have contributed to the euro area's current account surplus: 15 euro area Member States posted positive balances in 2017 (the countries with negative current accounts are Cyprus, France, Greece and Slovakia). The main contributors to the surplus remain the Netherlands and Germany, which together accounts for about 80% of the euro area's overall current account surplus.

In the framework of the Macroeconomic Imbalance Procedure (MIP[7]), two Euro Area Member States, Italy and Cyprus, are **experiencing excessive macro-economic imbalances**, and six countries are experiencing **macroeconomic imbalances**, namely France, Germany, Ireland, the Netherland, Spain and Portugal. As Greece was under a financial assistance programme until August 2018, it was not submitted to any surveillance under the MIP. All Member States experiencing excessive or macroeconomic imbalances (excessive or not) are submitted to specific monitoring; in addition, all their CSRs are underpinned by the MIP procedure.

Italy is experiencing excessive macroeconomic imbalances since 2014, while Cyprus is in this situation since 2016, when it exited the financial assistance programme. Nevertheless, the Commission did not propose the opening of the Excessive Imbalance Procedure**,** despite being advocated by many (for further information, see separate EGOV document). Italy weaknesses are essentially due to high public debt in a context of slow growth and high unemployment. Cyprus weaknesses are mainly related to its financial sector.

Table: Member States experiencing excessive macroeconomic imbalances, 2012-2018

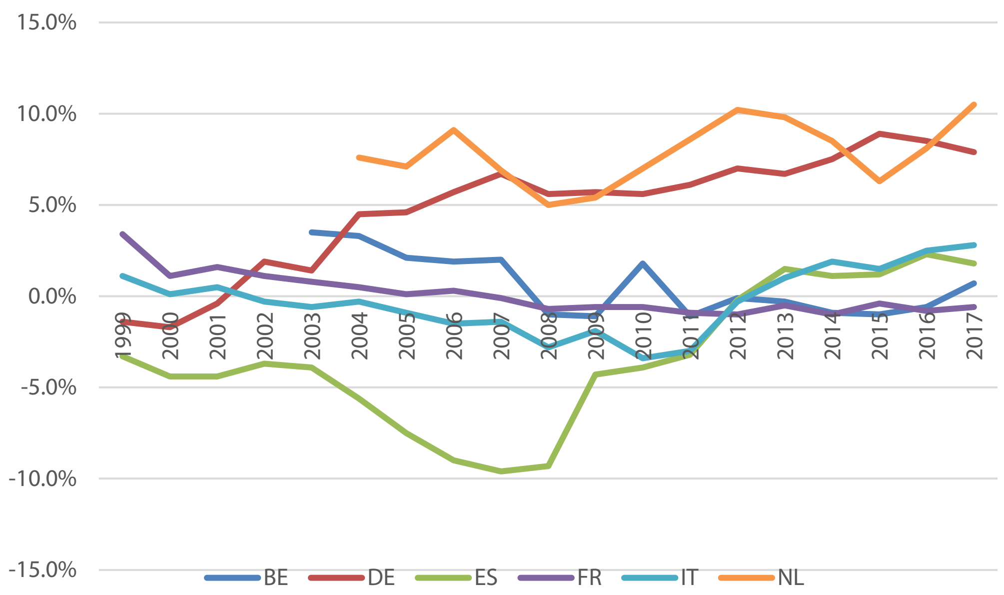
2012	2013	2014	2015	2016	2017	2018
-	ES	HR	BG	BG	BG	HR
	SI	IT	FR	FR	FR	IT
		SI	HR	HR	HR	CY
			IT	IT	IT	
			PT	PT	PT	
				CY	CY	

Source: EGOV based on European Commission assessments.

[6] Salaries of resident working abroad and interests and dividends on foreign investments.
[7] The EGOV notes on the Implementation of the MIP and on the MIP Procedure provide more information.

In its resolution on "*the economic policies of the euro area*" of 26 October 2017, the **European Parliament** considered "*it of essential therefore that all Member States take the necessary policy action to address macro-economic imbalances, in particular high levels of indebtedness, current account surpluses and competitiveness imbalances, and commit to socially-balanced and inclusive structural reforms ensuring the economic sustainability of each individual Member State, thereby ensuring the overall competitiveness and resilience of the European economy*."

Chart: Current-account balance of selected euro area Member States



Source: Eurostat

Further reading:

- An EGOV briefing that provides an overview on the state-of-play of the surveillance of the three Member States that have been assessed as part of the 2018 European Semester cycle as experiencing excessive macroeconomic imbalances in the context of the Macroeconomic Imbalance Procedure.
- An EGOV briefing that presents the Member States' situation with respect to the Macroeconomic Imbalance Procedure, taking into account recent assessments and decisions by the European Commission and the Council. It also gives an overview of relevant comments on the MIP published by EU institutions.
- An EGOV briefing that provides an overview of some elements related to the implementation of Country-Specific Recommendations (CSRs) issued under the Macroeconomic Imbalance Procedure.
- Please see also Annex 3 of this document for the latest MIP-scoreboard.

5. Banking Union: Recent developments

2018 EA Recommendation 4. In line with the Roadmap of June 2016, continue work to complete the Banking Union with regard to risk reduction and risk sharing, including a European deposit insurance scheme and making the common backstop for the Single Resolution Fund operational as agreed. Further strengthen the European regulatory and supervisory framework to prevent the accumulation of risks. Take measures to tangibly accelerate reduction of the levels of NPLs on the basis of the Action Plan of July 2017 and promote orderly deleveraging in Member States with large stocks of private debt. Further develop the Capital Markets Union to support growth in the real economy, while safeguarding financial market stability.

In keeping with the 29 June 2018 Eurosummit conclusions[8] and the Eurogroup letter to the President of the European Council, four items have been at the forefront of Eurogroup's agenda:

- The Eurogroup is developing a list of **indicators to assess progress in risk reduction** with a view to agreeing on a "roadmap for beginning political negotiations on EDIS";
- In accordance with the Eurosummit conclusions, the Eurogroup is preparing the terms of reference of the **common backstop** for the Single Resolution Fund (SRF) and agree on a term sheet for the further development of the ESM by December 2018;
- In his letter to the President of the European Council, the President of the Eurogroup pointed to a "possible framework for **liquidity in resolution**";
- The Eurogroup plans to adopt an Action Plan on measures to tighten up **AML supervision** by end 2018.

For further information, see the EGOV briefing on "Completing the banking union".

Assessing risk reduction

As the President of the Eurogroup put it in its letter to the President of the European Council ahead of the June 2018 Euro Area summit, "*to advance further [in the completion of the Banking Union], an objective assessment of the progress made in the implementation of risk reduction measures became an important part of the discussion on the implementation of the [Council] June 2016 roadmap*". The Eurogroup is currently working on a set of criteria, combining quantitative and qualitative elements, to assess progress in NPLs reduction. Other indicators or more specific methodologies have been developed in French German June 2018 roadmap for the euro area and in Commission's October 2017 communication on completing the Banking Union. Those different approaches are summarised in the table below.

> The Eurogroup approach:

The 2016 Council roadmap on the Banking Union conditions further progress in risk sharing on risk reduction measures (thee EGOV briefing on "completing *the* banking union" describes the different measures and legislative initiatives underpinning risk reduction and risk sharing). At the **request** of

[8] "1. The agreement in the Council on the Banking package should allow the co-legislators to adopt it before the end of the year while preserving the overall balance. Adhering to all elements of the 2016 roadmap in the appropriate sequence, work should start on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme. 2. The ESM will provide the common backstop to the Single Resolution Fund (SRF) and be strengthened working on the basis of all elements of an ESM reform as set out in the letter of the Eurogroup President. The Eurogroup will prepare the terms of reference of the common backstop and agree on a term sheet for the further development of the ESM by December 2018.".

the Eurogroup, the Commission, the European Central Bank ('ECB') and the Single Resolution Board (SRB) worked on a list of indicators to assess the degree of risk reduction. Those indicators have been outlined in a report on risk reduction. The Eurogroup concluded, in its letter to the President of the European Council that this report provides a basis for a "regular assessment".

Six indicators have met with a broad agreement among Member States, according to the President of the Eurogroup (Capital ratio, leverage ratio, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Non Performing Loan (NPL) ratio, and Minimum Requirement of Eligible Liabilities (MREL).

For an insight into how Banking Union banks have performed against those indicators over the past years, see EGOV Briefing 'Banking Union indicators'.

Views were split as to whether additional indicators should be looked at. As mentioned by the President of the Eurogroup, "*views on the usefulness of including additional indicators differ substantially especially on sovereign exposures, where views are the most divergent*".

In a non-paper dated 7 November 2018, the Commission, at the request of the Eurogroup Working Group (EWG) has further developed an '**hybrid' option, combining both quantitative and qualitative elements to assess progress in risk reduction** in the context of an introduction of the common backstop (see next section) ahead of the end of the transition period. According to the Commission, views of Member States are split on the following issues:

- The right balance between quantitative and qualitative criteria. Nevertheless, a consensus seems to emerge to favour a balanced approach where the quantitative and the qualitative component of the assessment would remain on an equal footing and complement each other;
- How should benchmarks for NPL and MREL buffer, where appropriate, be defined. With respect to the NPL benchmark, if any, the Commission suggests using a gross NPL ratio, for which an EBA definition exists. Statistical methods would need to be further worked out. As to possible benchmarks for MREL buffers, the Commission suggests designing the MREL indicators as ratios of the actual available MREL (total and subordinated) and the currently applicable requirement. Statistical methods would need to be further worked out;
- What would be the focus of the quantitative analysis (levels or trends). According to Commission, most Member States are in favour of using both level and trends in the quantitative assessment.

> The French and German roadmap:

In its June 2018 roadmap for the euro area, France and Germany further specified the risk reduction indicators outlined in the Eurogroup letter, in particular regarding the following:

- **Existing Non Performing Loans ('NPLs') stock:** "There should be an aim of a **5% gross NPLs and 2.5% net NP**Ls for all SRB and all other banks" (...) Member states/banks that do not reach these goals will undertake specific efforts also involving their insolvency/debt enforcement regimes to reach these goals in a short period of time".
- **Bail-in buffer:** "SRB banks should build up subordinated bail-in buffers steadily in line with the 2024 targets and 2022 intermediate targets" [and in accordance with the Council general approach on the banking package];
- Adherence by all credit institutions to the minimum capital requirements in the baseline scenario of an **Asset Quality Review** (AQR) in 2023;

- Proper consideration, as a minimum, of international standards on the prudential treatment of sovereign debt held by credit institutions by 31 December 2023.

> The Commission's communication on completing the Banking Union:

In its communication of 11 October 2017 on completing the Banking Union, the Commission stressed that moving to the co-insurance phase of EDIS (before 2022 at the latest) could be conditional on progress achieved in reducing the level of **NPLs** and **level III assets**, and other legacy assets through an **asset quality review, followed by an active portfolio reduction**. The Commission suggested setting thresholds in terms of level of NPL and level III assets. Banks not meeting the threshold would be required by supervisory authorities to prepare appropriate strategies on these issues

Table: Banking Union risk reduction indicators

Indicators	Eurogroup	FR/DE roadmap	Commission
NPL	Yes	5% gross NPLs and 2.5% net NPLs	AQR - Thresholds to be determined
Level III assets	Not mentioned	Not mentioned	AQR - Thresholds to be determined
Sovereign risk	Split views	Proper consideration of international standards by 31 December 2023	Not mentioned but SBBS as a first step
Liquidity ratios	Yes	Yes, as part of the Banking package	
Solvency ratios (capital and leverage)	Yes	Yes, as part of the Banking package	
TLAC/MREL	Yes	Subordinated bail-in buffers in line with Council position on the Banking Package	
AML risks	Action plan	Need for a set of substantive core criteria	

Source: EGOV based on June 2018 Eurogroup letter, DE/FR roadmap and Commission communication on Banking Union.

Backstop to the Single Resolution Fund

The SRF has been established for the purpose of both (i) absorbing losses and compensating creditors and (ii) providing liquidity in resolution. In the latter case, the SRF may guarantee the assets or the liabilities of the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle, and make loans to the institution under resolution, its subsidiaries, a bridge institution or an asset management vehicle.

The agreement reached at the Eurogroup in June 2018 on the "backstop" to the SRF keeps the amount that the ESM may use for resolution globally unchanged (See Table above). The ESM already reserves a maximum of EUR 60bn to its Direct Recapitalisation Instrument ('DRI')[9]. Since the backstop

[9] The DRI has been introduced in December 2014 further to an agreement on its main features reached in June 2013, ahead of the Council general approach on the Bank Recovery and Resolution Directive (BRRD) which laid down conditions for its use. DRI may be used in very specific circumstances as a last resort

would replace the DRI and should not be bigger than the size[10] of the SRF, the ESM envelop for resolution is kept by and large the same. Its focus has nevertheless been moved from solvency support ('recapitalisation') under the DRI to the provision of both liquidity and 'loss absorption' by the SRF.

With respect to the **size of this backstop**, the Chair of the SRB took the view in an interview delivered to the German press in June 2018 that "*she can live*" with a backstop of 60bn that will double the size of the SRF. At the same time, reflecting on the Banco Popular case, the SRB questioned whether the SRF could provide enough financing means to address liquidity shortfalls. It was stressed that Santander provided more liquidity than the SRF could have done[11], highlighting the need to find a solution when a buyer cannot immediately be found. While acknowledging that the "SRF can play a role [in resolution financing], in particular if a back stop is in place, Elke König noted in a conference in April 2018 that "this will always be too little for any systemic bank". Liquidity financing was not seen as "*the wisest use*" of the SRF in that respect.

Table: "Landing zone on the common backstop to the SRF"

General characteristics	• The ESM will provide the common backstop, in the form of a revolving credit line • The size of the credit line will be aligned with the target level of the SRF • The Direct Recapitalisation Instrument should be replaced by the common backstop • No country should be excluded from accessing the backstop
Modalities	• Fiscal neutrality • Maturities: 3 years+ possible 2 years extension • Equivalent treatment would be ensured with non-euro area Member States participating in the Banking Union, via parallel credit lines to the SRF
Decision making arrangements	• ESM BoD could take decisions on the use of the common backstop, arrangements with procedures in place for swift and efficient decision making whilst respecting national constitutional requirements • Option to be developed further in second half of 2018
Early introduction	• Common Backstop would enter into force ahead of 2024 if sufficient progress is achieved in risk reduction measures • Technical work, including on a possible revision of the IGA, to continue in the second half of 2018

Source: EGOV based on the Annex to the Eurogroup letter

The potential liquidity outflows from a mid-sized bank (let alone a European G-SIB) is likely to easily outstrip the SRF's ultimate size of 120bn. By way of example, liquidity support needed to restructure the banking group Hypo Real Estate amounted to EUR 145 billion (restructuring plan approved by Commission for HRE).

instrument when all other instruments, including bail-in, have been applied and after the SRF has been used. The total amount of ESM resources available for the new instrument is limited to EUR60 billion.

[10] The size of the SRF amounts to 1% of the covered deposits which has been initially estimated at 55bn and recently re-assessed at 60bn according to the SRB.

[11] The financial means of the SRF are capped to the sum of the ex-ante contributions and ex-post contributions that the SRF may raise (ex post contributions shall not exceed per year three times the annual amount of ex ante contributions). When those financial means are not available, the SRB may resort to "alternative funding means" (e.g borrowing from financial institutions).

Liquidity financing in resolution

The recent case of Banco Popular has shown the importance of having sufficient liquidity available to fund a bank resolution. Against this background, the Eurogroup agreed in June 2018 to step up work on a "possible framework for liquidity in resolution, including on the possible institutional framework". For this purpose, in its Article IV staff report, the IMF supports "establishing an indemnity to protect the Eurosystem from credit losses on liquidity provision to new banks post-resolution". There are no clear indications that Eurogroup has reached agreement on this area.

At the July 2018 ECON hearing, the Chair of the SRB pled for new liquidity arrangements provided by central banks to finance banks in resolution. The need for liquidity financing in resolution would be particularly acute where a bank is well capitalised post resolution but lacks adequate collateral to have access to ECB (or national central bank) funding. In that case, the issue is raised as to whether the ESM or Member States should provide guarantees.

Agreeing a new institutional framework raises some critical questions, including: i) the articulation of 'emergency liquidity assistance' (ELA) and a possible new 'Eurosystem Liquidity Resolution Facility' that is being discussed at the ECB; (ii) to which institution the mandate of resolution financing should in general be entrusted (ESM, ECB or SRB) and (iii) what role should be given to the ESM in the governance of liquidity financing or in the provision of public guarantees.

For further background information, see EGOV briefing 'Banking Union: towards new arrangements to finance banks under resolution?" (July 2018).

At the request of the ECON Committee, external papers on "The financing of bank resolution: who should provide the required liquidity?" have been commissioned to further outline how liquidity financing in resolution should be best structure.

> Willem Pieter de Groen (CEPS):

In his paper (to be published), De Groen emphasises that liquidity in resolution is one of the unresolved elements in the European crisis management framework. The two possible sources of liquidity, the Single Resolution Fund and central banks, have clear limitations in use and amounts. Straightforward solutions to give the Single Resolution and/or Eurosystem more firepower in resolution go against the main objectives of the resolution mechanism (i.e. breaking sovereign-bank nexus and avoid use of taxpayers' money). The paper therefore proposes an European Central Bank liquidity facility with a Single Resolution Fund-guarantee as an alternative solution for providing liquidity to banks in resolution. The funds available should be broadly sufficient to address potential liquidity needs for resolution tools. The proposed solution primarily requires the agreement on the ESM-backstop for the SRF, a firmer commitment for (possible) future contributions for the SRF as well as a change to the current Emergency Liquidity Assistance or introduction of a new dedicated Transitional Liquidity Assistance from the side of the Eurosystem. Review of the DG Competition Banking Communication would also be necessary, to encompass possible state aid implications. The Author underlines, in any case, that liquidity support in resolution needs to be sufficient, readily available and predictable, so as to allow the SRF to fully deploy its resolution instruments and meet the resolution objectives.

> Costanza A Russo, Rosa M Lastra (Queen Mary University of London)

On the back of recent cases of bank insolvency, the Authors discuss two issues (a) whether the provision of Emergency Liquidity Assistance (ELA) on an individual bank basis should be centralised within the European Central Bank (ECB) and (b) whether existing liquidity financing arrangements are fit for the role. The paper argues that a liquidity backstop is needed (although with conditions linked to eligibility criteria) and that ELA should be centralised at least for significant institutions. Such centralisation would not require Treaty amendments. The paper further argues that liquidity cannot be provided by the European System of Central Banks due to the prohibition of monetary financing and other Treaty and EU law requirements. The Authors conclude that choice of the EU entity which should be entrusted with such specific mandate will largely depend on the characteristics the facility would take. The paper considers such characteristics and analyses which authority may best fit that role in light of those characteristics. The paper also suggests that a well-structured facility could have a positive broader macroprudential impact, and that a fine balance needs to be struck between the risk of moral hazard and the beneficial effect this facility may have on market confidence.

> Maria Demertzis, Inês Gonçalves Raposo, Pia Hüttl, Guntram Wolff (Bruegel)

The analysis addresses the issue of liquidity needs of banks after the implementation of a resolution scheme. It proposes a solution in view of the absence of an appropriate mechanism to provide sufficient liquidity to banks after their resolution, given that the SRB/SRF alone cannot satisfy the major liquidity needs that would exist in case of a resolution of a large bank. The analysis proposes that the ECB – being the central bank – should be responsible for providing additional liquidity to banks. However, in order for the ECB to inject liquidity into banks, public guarantees are necessary. The analysis discusses three options regarding who could give such guarantees: (a) one or more national treasuries, (b) the SRF, (c) the ESM, or (d) a combination of the options (a)-(c). It further suggests that the involvement of national treasuries along with an ESM guarantee would be appropriate as long as the Banking Union remains incomplete. But once banking union is completed, the said guarantee should be provided a 'euro-area fiscal body with recourse to the SRF'. The analysis also points out the need for centralisation of the ELA and the harmonisation of national insolvency laws.

Anti-Money Laundering

In its letter to the President of the European Council, the Eurogroup places a particular emphasis on risks stemming from **money laundering**. The issue has been topical in political agendas following recent money laundering cases in Europe, some leading to interventions by the US authorities. The Eurogroup plans an agreement on further measures by end 2018, possibly as part of an Action Plan. A Council action plan for AML is being discussed ahead of the December ECOFIN Meeting. It draws on Commission's communication and recommendation of a Joint Working Group.

The Commission set up a Joint Working Group in May 2018 involving the Commission services, the SSM and the three European Supervisory Authorities (EBA, ESMA and EIOPA) to "*identify specific actions to be taken by the respective authorities, in order to improve the practical coordination of AML supervision of financial institutions, in the short term and beyond*". On 31 August 2018, the Joint Working Group presented a reflection paper to Member States and the European Parliament with a list of potential actions, seeking views on possible next steps. An external study has been commissioned by ECON analysing whether the reflection paper was living up to the expectations. Based on the Joint Working Group's report, the Commission has proposed in its communication an array of different actions that are summarised below. At the same time, the Eurogroup agreed to identify further measures to enhance the monitoring of the implementation of AML measures possibly as part of an action plan, by end 2018. There are no clear signs that the Eurogroup has reached conclusions in this area.

The *Commission* has proposed a three-pronged approach to reinforce the AML supervisory framework:

- Commitment to further develop guidelines and best practices in terms of AML supervision, which do not need any legislative changes;
- Strengthening the AML supervisory framework by entrusting the European Banking Authority ('EBA') with new powers and importantly by requiring the EBA to act in certain domains;
- Conducting a more fundamental review of the AML supervisory framework (i.e. possible need for a new EU body) at a later stage, in accordance with the review clause of the 5th AML Directive (i.e. January 2022).

In addition to Commission's action plan, the EBA has identified a number of areas where additional changes to the Capital Requirements Directive ('CRD') would be instrumental in addressing deficiencies in Union law.

For further background information, see EGOV Briefing: "Money Laundering: recent cases from a EU banking supervisory perspective" (update November 2018).

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This document is available on the Internet at: www.europarl.europa.eu/supporting-analyses

6. Ex-post surveillance of macro-economic adjustment programmes

Eurogroup work programme*: Priorities for the second semester of 2018: Programme and post-programme countries: The Eurogroup will continue to be involved in post-programme surveillance in Cyprus, Ireland, Portugal and Spain. The Eurogroup will also closely follow the post-programme framework for Greece whose modalities will be decided at the end of the programme. The purpose of post-programme surveillance is to identify whether there is any risk that a country may not be able to repay loans received under the programme. This surveillance stops once a country has repaid at least around 75% of the loan.*

Greece: The country is subject to enhanced surveillance and Post Programme Surveillance (PPS) since 21 August 2018. Article 2(1) of Regulation 472/2013 states that the COM may decide to subject to enhanced surveillance a Member State experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States in the euro area. On 11 July 2018, the COM decided that Greece shall be subject to enhanced surveillance for a period of six months, commencing on 21 August 2018. In accordance with this decision, Greece is expected to continue and complete key reforms set out in the annex of the Eurogroup statement of 22 June 2018: they relate to fiscal and fiscal structural issues, social welfare (including pensions, healthcare and social safety nets), financial stability and labour and product markets.

First post-programme mission***:*** The mission staff from the COM, in liaison with staff from the ECB, ESM and IMF, visited Athens from 10 to 14 September 2018. The COM reports that key elements were discussions on the situation and key challenges facing the Greek economy in the post-programme period, as well as the state of play and next steps in the implementation of Greece's commitment to continue and complete the key reforms launched under the programme. This included discussions on the fiscal situation and outlook, which will feed into the preparation of Greece's Draft Budgetary Plan for 2019, to be submitted to the EC by 15 October 2018, as well as on the implementation of the Non-Performing Loans (NPL) resolution strategy. No conclusions or report on this mission has been published yet. **The first quarterly enhanced surveillance report will be issued in November, together with the COM's Autumn Package under the European Semester.**

Ireland: The latest PPS was conducted in May 2018. The COM and ECB staff concluded after the mission (see also PPS report of July 2018 for further information) that: (a) ddomestic economic activity is expected to stay robust in the short term, but risks remain (to a big extent linked to the unknown terms of the UK's withdrawal from the EU as well as changes to the international taxation and trade environment); (b) the shortage of housing supply and continued significant increases in residential property prices and rents remain a major domestic challenge; (c) Standard public finance indicators have further improved underpinned by robust output growth; the favorable cyclical situation combined with strong tax receipts implies a strong case for accelerating deficit and debt reduction or creating the envisaged Rainy Day Fund; (c) the current benign economic environment provides a window of opportunity to continue to reduce legacy NPLs in a decisive manner. The next PPS mission is planned to take place in autumn 2018.

Portugal: Portugal has been subject to PPS following the government's decision of June 2014 to exit the programme before its expiration. The latest PPS mission took place in June 2018. The COM staff concluded that economic growth moderated in the first semester of 2018, although domestic demand remains robust. The current account retains a small surplus that is projected to remain throughout 2018 and 2019. Risks to the outlook have increased due to the more uncertain external environment. House prices and transactions accelerated, on the back of booming tourism in particular in the areas of Lisbon, Porto and Algarve. The COM staff consider that budget execution appear to be broadly in line with full-year targets up to June, with risks to the cash based execution broadly balanced. Public sector arrears continue on a rising trend, mainly due to state-owned hospitals. Although NPL levels are still very high, banks appear to have adequate liquidity and their returns have turned positive. Yields remain vulnerable to external events, due to the interlinkages with other economies, and the high levels of debt. The Staff of the COM and ECB recommended implementing the necessary structural reforms on the back of the benign conditions.

Spain: The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to PPS, with the latest visit taking place in October 2018. COM staff concluded that the Spanish banking sector retains comfortable levels of solvency and liquidity and profitability has increased on the back of the decline of loan-loss provisions related to the reduction in non-performing loans. NPLs ratios continued to decline to just above the EU average. The Staff encourages further divestment of banking foundations in savings banks and praises the implementation of the January 2018 merger of BMN with Bankia, which should progress. The Staff notes that SAREB, although still recording negative financial results, is preparing a new management strategy for its assets and is assessing how this might improve its profitability and effectiveness. The Staff further points out that Spanish economic growth, underpinned by strong domestic demand, continues to outperform the euro area average and macroeconomic rebalancing has progressed; the Staff recommends policy efforts to ensure a more durable growth path and achieve higher productivity growth, in line with its country-specific recommendations (continue reducing unemployment, make the labor market more inclusive, improve the business environment and enhance the innovation capacity of the economy, pursue fiscal consolidation).

Cyprus: In March 2016, Cyprus successfully exited from the ESM and IMF financial assistance programme. Cyprus used about €7.3 billion out of €10.0 billion available under the programme. The latest PPS mission, including an assessment of macroeconomic imbalances, took place in September 2018 and was coordinated with the IMF Article IV surveillance mission. The COM staff concluded that the ongoing strong recovery creates favorable conditions for tackling the vulnerabilities of the country, namely improving the payment culture and pursuing the structural reform agenda (judicial system, enforcement of commercial claims, issuance and transfer of title deeds, strategic investment law, opening the electricity market, advancing privatisations, local government reform and integration of pensions and insurance supervision). The sale of Cyprus Cooperative Bank (CCB) reduced uncertainty and reinforced depositor confidence, but its fiscal and budgetary impacts are yet to be fully seen. Persistently high levels of NPL, high private and public debt and the impact of external events may affect the outlook. On the other hand, inflation remains subdued, unemployment is falling (youth unemployment is still at high levels) and growth should remain solid although might decelerate over the medium term. Strong tax revenues and prudent expenditure management resulted in an impressive fiscal performance.

Annex 1: Euro area - Key macroeconomic indicators

	2015	2016	2017	2018 f	2019 f	2020 f
GDP growth – *% change on previous year*						
EA	2.1	1.9	2.4	2.1	1.9	1.7
EU	2.3	2.0	2.4	2.1	1.9	1.8
GDP per capita – *Purchasing power parities, Euro*						
EA	30,900	31,100	31,900	32,800	n.a.	n.a.
EU	29,100	29,200	30,000	30,900	n.a.	n.a.
General government budget balance – *% of GDP*						
EA	-2.0	-1.6	-1.0	-0.6	-0.8	-0.7
EU	-2.3	-1.7	-1.0	-0.7	-0.8	-0.7
General government structural budget balance – *% of potential GDP*						
EA	-0.9	-1.0	-0.8	-0.7	-1.0	-1.1
EU	-1.5	-1.3	-1.0	-0.9	-1.0	-1.1
General government gross debt[1] – *% of GDP*						
EA	92.1	91.2	88.9	86.9	84.9	82.8
EU	86.0	84.9	83.2	81.4	79.5	77.6
Interests paid on general government debt – *% of GDP*						
EA	2.3	2.1	2.0	1.9	1.8	1.8
EU	2.2	2.1	2.0	1.9	1.8	1.8
Inflation (HICP) – *% change on previous year*						
EA	0.0	0.2	1.5	1.8	1.8	1.6
EU	0.0	0.3	1.7	2.0	2.0	1.8
Unemployment – *% of labour force*						
EA	10.9	10.0	9.1	8.4	7.9	7.5
EU	9.4	8.6	7.6	6.9	6.6	6.3
Youth unemployment[2] – *% of labour force (15 – 24 years)*						
EA	22.3	20.9	18.8	n.a.	n.a.	n.a.
EU	20.3	18.7	16.8	n.a.	n.a.	n.a.
Current-account balance[3,4] – *% of GDP*						
EA	2.9	3.2	3.2	3.1	2.9	2.9
EU	0.9	1.4	1.2	1.1	1.0	1.0
Exports – *% change on previous year*						
EA	6.5	3.0	5.2	3.3	3.5	3.3
EU	6.2	3.2	5.4	3.4	3.6	3.2
Imports – *% change on previous year*						
EA	7.6	4.2	3.9	3.0	3.9	3.6
EU	7.1	4.3	4.2	3.2	3.9	3.6
Total investments – *% change on previous year*						
EA	4.9	4.0	2.6	3.3	3.0	3.0
EU	4.8	3.1	3.1	3.2	2.9	2.8
Total investments – *% of GDP*						
EA	20.0	20.4	20.6	n.a.	n.a.	n.a.
EU	19.7	19.9	20.2	n.a.	n.a.	n.a.
General government investments – *% of GDP*						
EA	2.7	2.6	2.6	2.7	2.7	2.8
EU	2.9	2.7	2.7	2.8	2.9	3.0
Total final consumption expenditure[2] – *% change on previous year*						
EA	1.7	1.9	1.5	n.a.	n.a.	n.a.
EU	1.9	2.2	1.7	n.a.	n.a.	n.a.
Households final consumption expenditure[4] – *% change on previous year*						
EA	1.8	2.0	1.6	1.6	1.8	1.6
EU	2.1	2.4	1.9	1.8	1.9	1.7
Income Inequality (Gini coefficient)[2] – *Scale 0-100: 0 = total income equality; 100 = total income inequality*						
EA	30.8	30.7	30.5	n.a.	n.a.	n.a.
EU	31.0	30.8	30.3	n.a.	n.a.	n.a.
Unit labour cost – nominal – *% change on previous year*						
EA	0.5	0.6	0.7	1.6	1.2	1.5
EU	0.4	1.2	1.2	2.0	1.5	1.8

Source: DG ECFIN - AMECO, data extracted on 15/11/2018; unless otherwise specified; (1) general government gross debt, non-consolidated for intergovernmental loans; (2) data from Eurostat; (3) current account balance, adjusted; (4) and (f) data are from European Economic Forecast - Autumn 2018.

Annex 2: Implementation of the 2018 euro area recommendations and related Eurogroup policy actions

2018 Council Recommendations	**Policy actions taken by the Eurogroup** (based on publicly available information)
Structural reforms	
1. Pursue policies that support sustainable and inclusive growth and improve resilience, rebalancing and convergence. Make significant progress towards completing the Single Market, particularly in services, including financial, digital, energy and transport, by, inter alia, implementing relevant product market reforms at national level. Given the positive cyclical conditions, all Member States should prioritise reforms that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce inequality. Member States with current-account deficits or high external debt should, in addition, aim at containing growth in unit labour costs and seek to improve their competitiveness. Member States with large current-account surpluses should, in addition, create the conditions to promote wage growth in a manner that respects the role of social partners and implement as a priority measures that foster investment and support domestic demand and growth potential, thereby also facilitating rebalancing.	On 21 June 2018 the EG adopted the policy priorities for the second half of 2018: "the Eurogroup will maintain its attention on policies geared at strengthening longer-term growth and employment prospects." In a remark following the June meeting, Mr. Centeno commented on the discussions on possible fiscal instruments for convergence and stabilisation of the EMU. "Finally, it is clear that our discussions are less advanced on possible fiscal instruments for convergence and stabilisation in the EMU. Subject to guidance by leaders next week, possible avenues to be explored could be a euro area budget for competitiveness, convergence and stabilisation purposes. We could also examine a European unemployment insurance fund for cases of severe economic crises." On 7 September 2018 the EG held a thematic discussion on efficient allocation in labour and product markets in the euro area. In his summing-up letter following the meeting, the EGP stressed that there was a need for reforms enhancing allocative efficiency in EMU, given the linkages with economic resilience. A preparatory note by the commission stressed the impact of macro-level allocative efficiency on economic resilience, and noted that there are large differences across member states. The note proposes policies aimed at upskilling/reskilling the work force, improving public sector efficiency and the business environment, and foster modern welfare states that ensure efficient and inclusive social policies to support the process of change. A presentation by Nobel Prize winner Christopher Pissarides on the impact of digitalisation and artificial intelligence on labour markets addressed a number of measures that could lead to efficiency gains in the Euro Area. These included eliminating waste, such as red tape and overemployment at efficient firms, increasing worker mobility between less efficient firms or sectors to more productive firms/sectors, as well as more widespread public sector adoption of digital technology. Commissioner Pierre Moscovici mentioned the increasing use of robots and artificial intelligence as one of the most important challenges for the working world in the coming years.
Public finances	
2. Deliver the planned broadly neutral overall fiscal stance for the euro area, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances, in particular where debt ratios are high, and supporting the economy, while fully respecting the Stability and Growth Pact and taking into account fiscal space and spillovers across Member States. Use the improving economic conditions to rebuild fiscal buffers, while continuing to strengthen economic growth potential. Ensure the effective functioning of national fiscal frameworks. Pursue policies which	On 22 January 2018 Ministers discussed the 2018 euro area recommendations proposed by the Commission and the Euro area Article IV IFM preliminary conclusions. As set out in the summing up letter, Ministers took note of the IMF preliminary conclusions and recommendations (avoid complacency and use these good economic times to build fiscal buffers, accommodative monetary policy until inflation has durably converged to the ECB's inflation aim, maintaining the risk reduction momentum and take advantage of the economic expansion to undertake structural reforms). The Fund also welcomed the debate on deepening the EMU, highlighting the completion of the Banking Union as the priority, while also emphasising the case for a central fiscal capacity, conditional on improved compliance with the fiscal rules. In what concerns the 2018 EA recommendations, Ministers concurred on the text, as prepared by the EWG, in view of the approval at the ECOFIN Council on 23 January.

support investment and improve the quality and composition of public finances, including by making use of spending reviews and adopting growth-friendly and fair tax structures. Take and implement measures to reduce debt bias in taxation and fight aggressive tax-planning to ensure a level playing field, ensure that taxpayers are treated fairly and safeguard public finances and stability within the euro area. This includes continuing work on the CCCTB.	On 24 May 2018 Ministers discussed the economic situation in the EA on the basis of the Commission Spring forecast, and spending reviews, on the basis of a Commission technical note and as a follow up to previous discussions in the June 2017 and September 2016. As to spending reviews, previous discussions identified 5 areas where these still pose challenges: i) fostering ownership by the administration under review; ii) designing detailed reform options and implementation roadmaps; iii) using operational checks, pilots and analyses of the outcome for the end-user; iv) adequate resources; and v) ex-post evaluation. EG discussed the first of these areas and concluded that expenditure reviews are growingly focusing on allocative efficiency or prioritisation of expenditure and that strong political commitment at a high political level is a key condition for the success of the exercise. Irish and Spanish Finance Ministers shared their experiences with recent spending reviews. The EG decided also to update a previous survey of MS experiences to deepen the debate in 2019. On 21 June 2018 the EG discussed an updated draft budgetary plan of Spain for 2018, on the basis of a Commission Opinion issued on 23 May 2018 and agreed it was broadly compliant with the SGP rules. The EG was also informed on the government priorities, as well as those of Italy. In particular, Ministers outlined in the statement referring to Spain their previous concerns regarding limited buildup of buffers in some Member States and the persistence of legacy problems. On the 12 July 2018 EG discussed the economic situation and outlook for the euro area on the basis of the Commission interim 2018 forecast as well as the budgetary situation in the euro area. On the basis of a Commission presentation, the Eurogroup President (EGP) concluded that he remained cautiously optimistic that the euro area economy will continue to expand at a steady pace, bearing in mind the risks skewed to the downside and which leave no room for complacency in EG policies. The Chairman of the European Fiscal Board (EFB) was invited to the meeting and presented the EFB's report on the Euro Area stance. He considered that the current expansion offered a clear opportunity to create fiscal buffers and prepare public finances for the future and that, overall, the current outlook warranted a somewhat restrictive fiscal stance for the euro area in 2019. The summing up letter points that Ministers' discussions focused on the need for differentiated fiscal efforts depending on the country circumstances, on methodological improvements to the measurement of output gaps, on the composition of public expenditures and a strengthening of fiscal governance. EGP concluded that, "given the uncertainties and risks to the economic outlook, and in view of the preparation of draft budgetary plans, it is important for us to adopt credible policies that properly reflect each country's specific circumstances. Rebuilding fiscal buffers remains a priority for Member States with high debt levels. Member States having outperformed their medium term budgetary objectives could use their favorable budgetary situation to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances." further contributing to defining the fiscal stance for 2019. On the 1 October 2018 the EG discussed national automatic stabilisers (NAS) on the basis of a Commission presentation and Member States' experiences. The discussion has also been framed around the deepening of Economic Governance and NAS are presented also as an instrument to reinforce EA crisis related preventive and defensive instruments (both Commissioner

	Moscovici and Klaus Regling pointed in that direction in the press conference). The Commission's analysis shows the effectiveness of NAS (about a third of economic shocks absorbed, as stated by Commissioner Moscovici) but still large differences amongst Member States, with AT framework being the most efficient and BG the least efficient in absorbing shocks. The Commissioner recognised the importance of these discussions in the context of reinforcing the Euro Area. As pointed out in the EG summing up letter, Ministers agreed that automatic stabilisers are particularly important within a monetary union insofar members lose monetary policy instruments that could assist in crisis situations. Ministers agreed that automatic stabilisers work best in conjunction with buffers created during good times and discussed how national policies can be designed and how to better enhance NAS functioning. When these are not enough to counter shocks, a point also raised in the preparatory note put forward to Ministers, some made the link to the discussions on stabilisation tools at central level. Some Member States suggested the Commission could usefully examine the interaction between national rainy-day funds and the rules of the Stability and Growth Pact. On the 5 November 2018 EG had a first discussion on draft budgetary plans and in particular the Italian DBP. Ministers urged Italy to present a DBP in line with SGP rules. Ministers also discussed financial stability in the euro area, on the basis of a presentation by Professor Jean Tirole. Professor Tirole touched upon shadow banking, fragmentation, the remaining sovereign-bank nexus, the rise of crypto-currencies and how to exit from the current low interest rate environment. The Eurogroup agreed that more needs to be done to tackle such challenges.
Labour market and social policies	
3. Implement reforms that promote the creation of quality jobs, equal opportunities, access to the labour market and fair working conditions, and support social protection and inclusion. Reforms should aim at: (i) reliable labour contracts that provide flexibility and security for employees and employers, combined with adequate support during transitions, while avoiding labour-market segmentation; (ii) quality, efficient and inclusive lifelong education and training systems that aim to match skills with labour-market needs; (iii) effective active labour-market policies that foster labour-market participation; (iv) sustainable and adequate social protection systems that contribute to social inclusion and labour-market integration throughout the life cycle and are responsive to new types of employment and employment relationships; (v) smooth labour mobility across jobs, sectors and locations; (vi) effective social dialogue and wage bargaining at the appropriate level according to national specificities; (vii) shifting	On 27 April 2018, as part of thematic discussion with a focus on increasing resilience in the EMU, the EG held a discussion on wage dynamics, with focus on the determinants of wage growth and the room for policy action in the face of increasing globalisation and digitalisation of labour markets. In a summing-up letter of the meeting, EGP stated "*Despite economic expansion under way, wage growth remains sluggish in most Euro Area member states*". In a preparatory note, the Commission writes "The 2018 Council recommendation to the euro area stresses that wage growth contributes to the economic recovery by supporting aggregate demand, reduces inequalities and ensures high standards of living in the euro area. It also states that efficient wage setting mechanisms should ensure that wages are differentiated depending on country specific conditions and taking due account of changes in productivity". As main policy instruments, the Commission suggests minimum wages, institutional collective bargaining frameworks, public sector wage setting, tax and benefit policies, as well as other structural reforms in product and labour markets (among others aimed at reducing labour market segmentation, impacting mark-ups, and increase productivity and investment in human capital, research and innovation). In his presentation professor Tito Boeri, president of the Italian Social Security Institute and professor at Bocconi University, outlined a few key issues on the topic: Underemployment and market segmentation in the Euro Area following the financial crisis, the significance of risk aversion of workers, and monopolistic powers of employers. The EGP concluded in a press briefing "*Wages are an important variable for macroeconomic adjustment in the monetary union. The*

taxes away from labour, particularly for low-income earners and second earners.	*issue has a strong national and in some cases sectoral dimension and the role of the social partners in wage setting is fully acknowledged. Moreover wage developments take place in a context that is affected by globalisation and technological change. Nevertheless, there is a range of possible supporting policies to help bringing wages and productivity developments more in line. These include reforms to reduce segmentation of labour markets, promote mobility and to take into account technological progress and digitalisation of the economy. We will continue our exchanges on labour market issues at our meeting in June."*
Financial sector	
4. In line with the Roadmap of June 2016, continue work to complete the Banking Union with regard to risk reduction and risk sharing, including a European deposit insurance scheme and making the common backstop for the Single Resolution Fund operational as agreed. Further strengthen the European regulatory and supervisory framework to prevent the accumulation of risks. Take measures to tangibly accelerate reduction of the levels of NPLs on the basis of the Action Plan of July 2017 and promote orderly deleveraging in Member States with large stocks of private debt. Further develop the Capital Markets Union to support growth in the real economy, while safeguarding financial market stability.	(See also conclusions of 19 February, under Recommendation 5). The outcome of the EG meeting on 27 April 2018 with ECB/SSM and SRB's representatives positively highlighted the resilience gained by the EU banking sector over the last year while aiming at a lasting risk-reduction process. However, it was made clear that some legacy issues do persist to exist within banks' balance sheets especially regarding NPLs, for which an enduring work in reducing bad loans is needed towards the prevention of further potential legacy problems for banks. SSM and SRB reported to Ministers on the results of the recent EU wide stress test and also on the key supervisory challenges and priorities for 2019. EBC/SSM further highlighted its qualitative Guidance of March 2017 on NPLs, supervisory dialogues and the Addendum to ECB guidance on NPLs, specifying supervisory expectations for the prudential provisioning of new NPLs. The SSM will continue to closely monitor the banks' relocation plans and ensure that banks are adequately prepared for Brexit. Ministers also discussed Anti-Money laundering issues, and will continue discussions on technical level on how to strengthen coordination between supervisors. On June 21 2018 terms were laid out for an overall agreement on the banking package and mechanisms promoting substantial risk reduction and risk-sharing. Broad consensus was shown towards the entrustment of the common backstop (for bank resolution) to the ESM which could become available before 2024, hence setting up a credible safety net for banking sector. In addition, the EG agreed on the reinforcement of the ESM through strengthening its commitment in financial assistance acting as a lender, the role in designing programmes as well monitoring debt sustainability. In this sense, by December 2018 the EG will deliver a comprehensive document outlining the key features regarding the mentioned ESM reform. Also, the EG concurred on formulating a roadmap kicking-off the discussion on the set up of the EDIS at a political level. In the 7 September and 1 October meetings the EG followed-up many topics already discussed in the previous seats, emphasising the progress already achieved in risk reduction field and reiterating the work needed to lay out a roadmap for the beginning of political discussion of EDIS. Yet it is acknowledged that game changing decisions on a comprehensive package of reforms will be taken in the December EG meeting. An extraordinary meeting on the 19 November was announced.
Institutional reforms	
5. Make swift progress on completing the EMU, taking into account the Commission initiatives launched in autumn 2017, while fully respecting the Union's internal market and in an open and transparent manner	On 22 January 2018 Ministers discussed the deepening of the EMU and agreed that the work of the Eurogroup should primarily focus on the two priority areas identified by leaders, namely the completion of the Banking Union and the reform of the ESM. On the former, the ECOFIN Council roadmap of June 2016 should be adhered to and eventually further developed, notably by adding

towards non-euro-area Member States.	more precision as regards the specific steps that need to be taken in terms of risk reduction and risk sharing, whilst taking stock of the developments already registered in these dimensions. As regards the ESM reform, Ministers decided to focus as a matter of priority on issues related to its functions. Some Ministers also argued in favor of exploring other issues – such as fiscal capacity and improved fiscal rules – in order to reach a comprehensive political decision by June 2018 (and mandated the EWG to work on those). Ministers emphasised that sequencing will be essential as well as holding discussions in a stable and inclusive format as much as possible. On 19 February 2018 Ministers discussed the reforms of the ESM in the context of the proposals for deepening of the EMU. Ministers agreed, as detailed in the summing up letter, to work on all relevant issues, covering the possible role of the ESM as backstop provider to the Single Resolution Fund, the role of the ESM in programmes and crisis management and its implications, debt sustainability issues and the review of instruments and gave a broad mandate to the Eurogroup Working Group to freely discuss. Commission and the ESM should also be involved and come forward with common positions. Legal issues related to the constitutional set-up of the ESM as well as governance issues should be left for later. In inclusive format, EG agreed with the information put forward by the ECB/SSM, Commission, ESM and SRB that important progress has been made in risk reduction but recognised that there is scope for further improvement, therefore, asked for a comprehensive assessment of progress achieved. In that context, Ministers is concurred some indicators are probably relatively straightforward while others are more controversial. EWG and the EFC were mandated to pursue the preparatory work needed. Ministers also concurred to continue technical work on risk sharing, notably on EDIS and on the backstop to the Single Resolution Fund. Klaus Regling pointed out that ESM and Commission are working on an agreement to further detail their working relationship. On 12 March 2018 the EG prepared the March Euro Summit. The summing up letter refers that Ministers concluded that work should cover four issues: the possible role of the ESM as backstop provider to the Single Resolution Fund, the review of instruments, the role of the ESM in programmes and crisis management and its implications, and debt sustainability issues. Ministers confirmed overall support for making the ESM the backstop provider for the Single Resolution Fund, but less progress on the other issues. On the banking union, and meeting in inclusive format, Ministers concluded no new measures should be added to the roadmap agreed in 2016 and that technical work on risk sharing, notably on EDIS and on the backstop to the Single Resolution Fund, should continue. Different views were expressed on fiscal issues. Ministers focused the discussion on a possible central stabilisation function, although different views were presented, leaving to the budget debate issues such as convergence or promotion of structural reforms. On 24 May 2018 Ministers took stock of the work done so far in deepening the EMU. The summing up letter reflects that Ministers broadly support work already done in identifying the indicators and the sequencing of the deliverables in terms of risk reduction and risk sharing, with first decisions to be taken in June. Ministers underlined that a compromise on the Banking Package is an important step in further reducing risks in the Banking Union and would help to pave the way for advancing political decisions on risk sharing measures, including on the ESM becoming the backstop to the Single Resolution Fund (SRF). A specific report on risk reduction would be prepared for furthering the discussions. As to the ESM, Ministers

	confirmed very broad support for making the ESM the backstop provider for the SRF and agreed to continue work on the ESM reform to enable a decision in June. Work will continue on the review of the ESM toolkit, on the main features of the common backstop, on the debt sustainability approach of the ESM, to see if there is scope to further clarify the ESM framework, taking into account the approach used by the IMF. European institutions will keep working on the future of their working arrangements in the context of programmes. On the 21 of June 2018 the EG prepared the Euro Summit taking place on the 28-29 of June. In particular, Ministers discussed, as expressed in the summing up letter, (a) the proposals put forward by Germany and France, (b) the possible elements of a landing zone prepared by the EWG, (c) indicators measuring progress with risk reduction and the way forward with the roadmap for risk reduction and risk sharing, (d) the future role of the ESM. Ministers decided that the EGP would report by letter, on a personal capacity, to the European Council President on the outcome of discussions. In its remarks at the press conference, EGP reported, in particular, that Ministers broadly support a gradual approach whereby risk reduction and risk sharing measures are taken in the appropriate sequence: (a) agreement on the banking package and indicators on risk reduction would allow agreeing the ESM as a backstop to the Single Resolution Fund (SRF); (b) the backstop could be available before the end of the transitional period (1 January 2024) insofar significant progress is made in risk reduction. Its size would be aligned with the target level of the SRF, doubling the current amount available for bank resolution; (b) after the European Council in 28-29 June, the work on a roadmap for beginning political discussions on EDIS could start. Ministers also agreed to act decisively on the Anti-Money Laundering front and on reinforcing the ESM in designing and monitoring financial assistance to Member States. Ministers decided additionally to review the existing ESM instruments, in particular the precautionary tools, and assess the need for new instruments. Ministers were divided on debt sustainability. On possible fiscal instruments for convergence and stabilisation of the EMU, EGP concluded that discussions are less advanced. Possible avenues to be explored could be a euro area budget for competitiveness, convergence and stabilisation purposes and a European unemployment insurance fund for cases of severe economic crises. Ministers were debriefed on the 12 July 2018 on the conclusions of the 29 June Euro Summit and discussed the mandate given by Leaders for a comprehensive set of proposals by December 2018. The summing up letter reflects that discussions showed broad agreement that priority should be given to the deepening of EMU. Ministers agreed that: (a) on Banking Union, the EG will work on a roadmap for beginning political discussions on the European Insurance Deposit Scheme, a possible framework for liquidity in resolution and measures to enhance the organisation of anti-money laundering, whilst monitoring progress with risk reduction and keeping track of agreements reached on banking legislation and its implementation; (b) The EG will prepare terms of reference of the common backstop to the SRF, including on its early introduction and possible changes to the Intergovernmental Agreement; (c) On the ESM reform, the EG will prepare a term-sheet outlining the key features of a reinforced ESM (review of the ESM toolkit, its precautionary instruments and possible new instruments; work on

	a stronger role of the ESM in programmes; debt sustainability issues and ESM governance); (d) On the euro area fiscal capacity, discussions should continue on the basis of the Commission's proposals within the MFF framework, and recent proposals on a possible euro area budget for competitiveness, convergence and stabilisation purposes and a European unemployment insurance fund. Ministers further agreed that the discussions would be held in inclusive format, when relevant. On the 7 September 2018 the EG discussed the follow up to the 29 June Euro Summit and the terms of reference of the backstop to the SRF. As referred to in the summing up letter, the EG has been mandated to work on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme, adhering to all elements of the 2016 roadmap in the appropriate sequence, prepare the terms of reference of the common backstop, agree on a term sheet for the development of the ESM by December 2018, and further discuss all the items mentioned in the EGP letter of 25 June to the President of the European Council. Ministers agreed that discussion should start on the common backstop for the SRF (agreeing on the conditions for a possible early introduction from January 2024 and the decision making - the ESM Board of Directors could swiftly take decisions on the use of the common backstop, respecting national prerogatives) and then proceed the ESM reform, its toolkit and role. On debt sustainability issues, Ministers agreed to review the progress with risk reduction, discuss the work that should start on a roadmap for beginning political discussions on EDIS, and will also discuss liquidity in resolution. Ministers agreed to discuss instruments for competitiveness, convergence and stabilisation purposes and on the sequencing of the various topics, bearing in mind the required political decision on a comprehensive package in the December 2018 Eurogroup. On 12 July 2018 the EG discussed a letter from EGP to European Council president Donald Tusk of 25 June. In the letter Mr. Centeno writes that differences of views remain on the need for and possible features of a Eurozone budget for competitiveness, convergence and stabilisation in the EMU. He continues that the EG stands ready to discuss the recent proposal on the budget, including on the basis of the legal architecture proposed by the commission for its investment stabilisation function within the MFF. He adds the possibility of a European unemployment insurance fund, which could be funded by national contributions and allocations of tax revenues, as well as sourcing from the European level. Mr. Centeno mentions that some Member States have raised concerns regarding moral hazard and possible fiscal impacts, which need to be taken into account. Commenting on the Commission economic forecast, Centeno remarked "Despite the risks in the global economy, namely with tensions on trade, we are confident in the strength and resilience of the euro area economy. Years of reforms are now paying off. Employment is up. But clearly there are important challenges ahead in the global economy so we need to stay the course and continue sound economic policies." On the 1 October 2018, EG discussed issues related to the precautionary instruments available to the ESM (namely, options to enhance its effectiveness, among others, effective ex-ante eligibility criteria to assess a Member State economic and financial performance), as well as its role in crisis management and prevention within the limits of the Treaties and respecting the Commission's mandate. The EG broadly agreed, as stated in the

	summing up letter, to enhance the effectiveness of precautionary tools, with an appropriate level of conditionality. Ministers confirmed that the precautionary credit line should be accessible by Member States with sound fundamentals, whilst further work (mandated to the Eurogroup Working Group) is needed on the eligibility criteria (including debt sustainability, to safeguard creditors' interests) and their interplay with the EU surveillance framework. There was broad support for a global assessment of the eligibility criteria, with quantitative thresholds judged necessary by some Ministers. In relation to the ESM, Ministers broadly support strengthening the ESM in its function as a lender, as set out in the summing up letter, without stigmatising the requesting Member State and with appropriate conditionality. Ministers agreed the ESM could be involved in some tasks linked to the provision of financial assistance, such as the assessment of financing needs and the debt Sustainability Analysis, avoiding overlaps with EU processes and Commission competences and the ECB–ESRB. The institutions were mandated to come up with a joint proposal for cooperation so that Ministers can approve by December a term sheet of conditions. On the 5 November 2018 Ministers continued discussions on a common backstop to bank resolution; ESM reform and EDIS. EGP pointed out that the EG is now closer to finalising the Terms of Reference of the backstop for bank resolution. Ministers agreed that the size of the backstop credit line will be aligned with the target level of the SRF, that the ESM Board of Directors will take decisions on a case-by-case basis, swiftly and with involvement of national parliaments whenever necessary. EGP noted that progress had been made as well as on the ESM precautionary instruments. No progress was made on EDIS.

Source: EGOV based on Eurogroup statements, press releases and press conferences available on the Council homepage (at https://www.consilium.europa.eu/en/council-eu/eurogroup/).

Annex 3: Euro area MIP-scoreboard

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2017	**Current Account Balance** % of GDP 3 year average	**Net International Investment Position** % of GDP	**Real Effective Exchange Rate with HICP deflator** 3 year % change	**Export Market Shares** 5 year % change	**Nominal ULC (2010=100)** 3 year % change	**House Prices index deflated** 1 year % change	**Private Sector Credit Flow** % of GDP	**Private Sector Debt,** consolidated % of GDP	**General Government Gross Debt** % of GDP	**Unemployment rate** 3 year average	**Total Financial Sector Liabilities, non-consolidated** 1 year % change	**Activity rate** % of total pop. aged 15-64 3 year change	**Long term unemployment rate** % of active pop. aged 15-74 3 year change	**Youth unemployment rate** % of active pop. aged 15-24 3 year change
Thresholds	**-4/+6%**	**-35%**	**±5% (EA)**	**-6%**	**+9% (EA)**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2%**	**0.5%**	**2%**
BE	-0.3	52.6	0.9	3.9	1.1	1.5p	-1.5	187.0	103.4	7.8	0.7	0.3b	-0.8b	-3.9b
DE	8.4	54.0	-2.5	6.5	5.1	2.9	4.9	100.1	63.9	4.2	4.0	0.5	-0.6	-0.9
EE	2.3	-31.4	2.9	2.6	12.4	1.8	3.6	106.4	8.7	6.3	9.7	3.6	-1.4	-2.9
IE	2.9	-149.3	-6.2	64.4	-17.2	9.5p	-7.5	243.6	68.4	8.4	4.3	0.9	-3.6	-9.0
EL	-0.8	-142.5	-2.8	-10.0	-1.0p	-2.2e	-0.8p	116.4p	176.1	23.3	-12.9	0.9	-3.9	-8.8
ES	1.8	-83.8	-2.5	9.8	0.0p	4.5	0.2p	138.8p	98.1	19.6	4.0	-0.3	-5.2	-14.6
FR	-0.6	-20.1	-2.9	2.7	1.3p	1.8	7.0p	148.2p	98.5	10.0	4.3	0.5	-0.3	-1.9
IT	2.3	-5.3	-3.1	2.0	1.1	-2.0p	2.1	110.5	131.2	11.6	4.3	1.5	-1.2	-8.0
CY	-5.0	-121.5	-6.6	6.9	-2.7p	1.3p	8.7p	316.3p	96.1	13.0	-2.3	-0.4	-3.2	-11.3
LV	0.6	-56.3	1.7	7.8	14.7	5.5	0.3	83.5	40.0	9.4	6.1	2.4	-1.3	-2.6
LT	-0.7	-35.9	2.3	9.7	16.0	5.4	3.7	56.1	39.4	8.0	14.0	2.2	-2.1	-6.0
LU	5.0	47.0	-0.9	25.2	7.1	4.1	-15.5	322.9	23.0	6.1	-1.7	-0.6	0.5	-6.9
MT	8.4	62.6	-2.3	11.2	1.7	4.1p	2.9	120.2	50.9	4.7	4.7	4.4	-1.1	-1.1
NL	8.3	59.7	-1.6	1.2	-0.2p	6.0	3.0p	252.1p	57.0	5.9	2.0p	0.7	-1.0	-3.8
AT	2.1	3.7	0.3	2.3	3.7	3.5	4.3	122.5	78.3	5.7	1.8	1.0	0.3	-0.5
PT	0.4	-104.9	-0.7	14.6	3.5p	7.9	1.3p	162.2p	124.8	10.9	1.8	1.5	-3.9	-10.9
SI	5.7	-32.3	-2.0	18.6	3.4	6.2	0.8	75.6	74.1	7.9	5.1	3.3	-2.2	-9.0
SK	-2.0	-65.6	-1.9	6.7	6.9	4.4	5.9	96.1	50.9	9.8	17.9	1.8	-4.2	-10.8
FI	-0.7	2.4	-2.6	-4.3	-2.5	0.5	8.2	146.4	61.3	8.9	-3.8	1.3	0.2	-0.4

Source: Eurostat. Grey boxes indicate values outside the threshold. Data as of 14 November 2018 (they may differ from the data published in the 2018 AMR).
(b= Break in time series; p= provisional