

Recommendations on the economic policy of the euro area under the European Semester - January 2020

This note looks at the 2019 recommendations on the economic policies of the euro area adopted by the Council, upon proposal of the Commission. Its scope is to provide an overview of their follow up, making use of public information and based on proxies such as on how the Eurogroup has integrated euro area recommendations concerns in their “thematic discussions” and its work programmes, as well as Commission’s assessment. It also looks at the Commission proposal for the 2020 euro area recommendations and the foreseen timetable for their adoption. In addition, the note provides a review of the euro area recommendations from an institutional perspective and includes broad comparisons to earlier recommendations, to illustrate how policy concerns have evolved over time. This note is regularly updated.



I. The euro area recommendation: institutional perspective

Within the framework of the European Semester, the Council issues, on the basis of a Commission proposal, annual recommendations on the economic policy of the euro area (the euro area recommendation (EAR)), in accordance with Articles 136 and 121(2) 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). The EAR aim to provide orientations to euro area Member States on issues that are relevant for the functioning of the euro area as a whole (and, thus, are to be regarded as a “common concern”), such as policies related the euro area fiscal stance and the completion of the EMU. Since the 2015 Semester cycle, and following the recommendations in the [Five Presidents’ report](#), the EAR are part of the so called autumn package, and precede the country specific recommendations (CSRs).

At the national level, euro area countries are expected 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) in implementing their CSRs.

The Council and the Commission are expected to monitor the implementation of the EAR and take further actions as appropriate. The European Parliament scrutinises the decisions taken at the EU-level during the Semester cycle, in particular by means of [Economic Dialogues](#). Parliament also holds debates in plenary to contribute to policy setting; that was the case, for instance, in [December 2015](#), when Parliament held a



debate in Plenary with the Commission and the then President of the Eurogroup (EG) on euro area priorities, on the back of the Commission [May 2015](#) EAR proposal. Parliament also contributes to the whole Semester process via its resolutions, for example, on the [European Semester for economic policy coordination](#) (e.g. on the Annual Growth Survey and on the Euro Area developments in relation to the 2019 cycle¹). 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, the role of public debt sustainability assessments and, more recently, on the role of the automatic fiscal stabilisers in the euro area²).

At the euro area level, as such, there is (1) no institutional body that bears formal responsibility for the implementation of EAR and (2) no formal mechanism to ensure implementation of (or enforce) these recommendations. Nevertheless, the EG, as the *de facto* coordination body of euro area policies, takes into account the euro area recommendations when drawing up its [work programmes](#) and undertakes “thematic discussions” on issues that are relevant from an euro area perspective and somehow addressed in the EAR. In particular, the Council considers the EG as the appropriate forum for Member States to “take action”, individually and collectively³, to implement euro area recommendations⁴. Notwithstanding, most of the actions covered by the EAR need implementation at national level (in particular, the EAR covering fiscal and structural issues), even if such actions are coordinated at European level within the European Semester⁵. As proxies to understand what has been done following the adoption of the EAR, the main public sources today are (a) publicly available information on Eurogroup discussions and (b) Commission’s staff analysis relating to the Semester. This note focus on both.

The [European Fiscal Board](#) also plays a role in advising the Commission and relevant stakeholders on the consistency between the national fiscal stances and the fiscal stance of the euro area as a whole⁶ and may, therefore, contribute to the debate on the implementation of the EAR. The European Fiscal Board regularly appears before the European Parliament for hearings⁷. The European Economic and Social Committee (EESC) also issues opinions on euro area policies⁸.

II. The 2019 euro area recommendation: from proposal to adoption

The proposal for the 2019 EAR was adopted by the Commission on [21 November 2018](#). After discussion by the appropriate [preparatory bodies](#) (in particular, the Eurogroup Working Group and the Economic and Financial Committee), the proposal for EAR was discussed and [adopted](#) at the 21-22 January 2019 [Eurogroup](#) and [Ecofin](#) meetings and endorsed by the [21-22 March 2019 European Council](#), in accordance with the

¹ For the 2020 cycle please see [here](#).

² For an overview of all the external papers requested during the 8th Parliamentary term, see specific [EGOV paper](#).

³ 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 seems a mandate for Member States to reflect the EAR in their economic policies, to consider them as a matter of common concern and points to a coordination and monitoring role by the Eurogroup.

⁴ See section below on the Eurogroup work programme for the first and second half of 2019.

⁵ In a paper commissioned by the European Parliament, of [September 2016](#), on “Structural policies for growth and jobs: best practices, benchmarking and the role of the Eurogroup”, Henrik Enderlein and Jörg Haas propose “*The role of the Eurogroup in the European Semester would need to be defined ex-ante, not ad-hoc. This would include officially assuming the responsibility for achieving the euro-area CSRs, following up on country-level CSRs and possibly taking up an active role in the MIP.*”.

⁶ See specific [EGOV paper on the euro area fiscal stance](#).

⁷ The last of such events took place on [24 September 2019](#), where the Chair of the European Fiscal Board (EFB) presented the Board’s general orientation of fiscal policy in the [euro area for 2020](#). For the 2019 cycle, the EFB orientation was put forward in June 2018, when the EFB published its “Assessment of the fiscal stance appropriate for the euro area in 2019”.

⁸ For 2019, the EESC issued its report in [January 2019](#).

[Council roadmap for the 2019 European Semester](#). The recommendation was then submitted to the [General Affairs Council of 9 April 2019](#) for final adoption and was published on [12 April 2019](#).

The Commission's proposal for the 2019 EA recommendations covered four key policy areas, namely: (1) structural reforms (supporting investment, boosting productivity, and reinforcing labour markets and sustainable social protection systems); (2) rebuilding fiscal buffers in countries with high levels of public debt and generally improving the quality of public finances; (3) completing the Banking Union; and finally (4) making progress on completing the EMU. While these priorities were also embodied in the previous cycle, the emphasis placed on some of the elements that were maintained has somehow changed, as shown in Annex 3. In this sense, compared to those for 2018, the recommendations proposed for 2019 were shorter and more sharply focused on the areas that the Commission envisaged as priority, like reinforcing the monetary union and rebuilding fiscal buffers.

The recitals accompanying Commission's proposals provided further guidance to what the Commission envisaged:

- (a) reinforcing the internal rebalancing of the euro area by an appropriate deleveraging pace, create an environment supportive of growth and adopting reforms to increase productivity;
- (b) focussing on structural reforms, to underpin the gradual normalisation of monetary policy;
- (c) differentiating national fiscal policies, properly coordinated, aiming at strengthening the overall fiscal sustainability of the euro area and considering the available fiscal space of each Member State, and setting a slightly expansionary euro area fiscal stance in 2019;
- (d) reinforcing the build-up of fiscal buffers for Member States with high levels of public debt, whilst Member States with fiscal should increase public investment.

The recitals also highlight the Commission's ambitions in relation to reinforcing supervisory cooperation and the European Banking Authority's mandate, with the aim of better tackling money laundering as a new priority in face of the recent scandals. On the other hand, deepening the EMU, making progress on the Capital Markets Union and completing the Banking Union remain priorities, as already set out in the 2018 EAR, although the Commission framed these reforms in the context of a strengthened international role of the euro.

As part of the discussions preceding Council adoption of the EAR, the Eurogroup Working Group, the Economic and Financial Committee and the Economic and Policy Committee (Ecofin Council preparatory bodies) [amended the Commission proposals](#), notably concerning the commitments to debt reduction and rebuilding of fiscal buffers and the framing of discussions regarding EDIS and the deepening of the EMU. References were added to the Capital Markets Union (CMU), fight against aggressive tax planning and to promote "quality job creation". In particular, the following can be highlighted:

- Additions relating to the need to improve the quality of institutions and not only the business environment (in the context of deepening the Single Market – EAR 1);
- The need to reduce external debt and increase competitiveness in MS with high external debt (EAR 1) and not only those with current account deficits (as the Commission initially proposed);
- the specification to consider productivity as part of competitiveness
- The support to public and private investment was framed by the respect of the SGP (EAR 2);
- The recommendation on rebuilding fiscal buffers is, again as in 2018, addressed to all MSs and not, as the Commission initially proposed, to the Member States with high levels of public debt. Nevertheless, the rebuilding of fiscal buffers was "especially" addressed to those Member States (EAR 2);
- Fighting aggressive tax planning gained prominence; in the Commission's proposal reference was made only in recital (EAR 2);
- Promote "quality job creation" was added, as well as a recommendation to strengthen training (and not only education) (EAR 3);
- A reference was added to anticipating the backstop to the SRF, if sufficient progress in risk reduction is achieved (EAR 4);
- Making ambitious progress on CMU, (which was only mentioned in recital 9 in the Commission's proposal), was added (EAR 4);

- A reference was added to overcoming limitations to liquidity provision in resolution (EAR 4);
- The reference to “swiftly reducing the level of non-performing loans” was qualified by adding “continue to swiftly reduce”, acknowledging what has already been done on that front (EAR 4);
- Reference to working in an inclusive way with non-euro area member states on deepening of the EMU was added and “completing” the EMU was replaced by “deepening” the EMU (EAR 5).

In addition, the wording of the Commission proposals were slightly nuanced in what concerns:

- EDIS: the Council preparatory bodies added a reference to the HLWG, which seems to be somehow limiting the "ambition" of the Commission’s proposal (EAR 4);
- Specific references to Commission’s proposals on the Reform Support Programme and the European Investment Stabilisation Function were replaced by a more general reference to “Commission proposals” on deepening of the EMU (EAR 5);
- In the same EAR 5, references to some Member States initiatives, to the Statement of the Euro Summit of 14 December 2018 and to the EU internal market appear to give a frame for the work relating to deepening of the EMU.

Annex 2 provides a comparison of the 2019 EAR proposed by the Commission, the recommendations after discussions in Council preparatory bodies and the final adopted version. No major changes were introduced at the final adoption stage (in other words all material changes were made during the discussions in Council preparatory bodies, where the discussions are not public). Annex 3 provides a comparison between the 2018 and 2019 euro area recommendations.

III. Follow up of the 2019 euro area recommendation

As already mentioned, the follow up of the EAR is not specifically assigned to an EU Institution, nor is its assessment. Nevertheless, the EG can be considered as the *de facto* responsible institution for the EAR implementation, and the Commission as the institution responsible for its assessment.

3.1 Eurogroup’s discussions

The EG adopted its work programme for the first half of 2019 on [3 December](#) and for the second half of 2019 on [13 June](#) (see boxes 1 and 2 below). In both work programmes, the EG mentioned having taken into account the EAR in setting its priorities.

Box 1: Eurogroup’s work programme for the first half of 2019

According to the [work programme](#) for the first half of 2019, released on 3 December 2018, the EG is to:

- Maintain its attention on structural reforms to strengthen economic growth, reduce vulnerabilities and be better prepared to absorb economic shocks. To focus Ministers’ attention on targeted issues, discussions in preparatory committees will be broader in scope.
- 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, as well as the implementation of any excessive deficit procedure.
- Continue to be involved in post-programme surveillance in Cyprus, Ireland, Portugal, Spain and following up the enhanced surveillance on Greece and implementation of the medium-term debt measures.
- Continue monitoring issues relevant for financial stability as well as the progress related to strengthening the banking union.

The EG continue inviting specialists to their discussions, preparing the Euro Summit meetings and foresees a (possible) exchange of views with the ECON Chair at its 5 April meeting.

Box 2: Eurogroup's work programme for the second half of 2019

According to the [work programme](#) for the second half of 2019, released on 13 June 2019, the EG is to:

- Continue to follow economic developments attentively and provide coordinated, timely and differentiated policy responses if risks materialise.
- Continue to closely monitor efforts to ensure sound fiscal policies and assess the budgetary situation in the euro area as a whole, assess draft budgetary plans and be involved in the general evaluation of the EU fiscal rules, from the perspective of the euro area, as appropriate, in the context of the planned review of the legislation.
- Continue to be involved in post programme surveillance in Cyprus, Ireland, Portugal, Spain and following up the enhanced surveillance on Greece and implementation of the medium-term debt measures.
- Continue monitoring issues relevant for financial stability as well as the progress related to strengthening the banking union and the international role of the euro.
- Continue work on deepening the EMU and completing the Banking Union.

The EG continue inviting specialists to their discussions and will prepare the Euro Summit meetings.

To find out how the EARs 2019 have been implemented, an indirect instrument is constituted by the summaries and conclusions of the debates held in the EG and addressing the four policy areas covered by the EAR (see Annex 1 for details). Following the Euro Summits of December 2017 and June 2018, the subjects discussed in the EG meetings during 2019 (as it was the case in 2018) concentrated on moving forward issues such as the deepening of the EMU and the Banking Union (the latter with less emphasis than in 2018). In particular, one can note that:

- Deepening of the EMU was discussed in almost all EG meetings, with the involvement of non-euro area Member States, as it was the case in 2018;
- the euro area fiscal policies were often discussed and referred to in the EG and Ministers affirmed their readiness to take measures if risks to the downside materialise;
- Ministers held thematic discussions (with the assistance of expert notes and speakers) on topics related to housing markets and their impact on macroeconomic stability, quality of public finances, competitiveness developments, inequality in the euro area and investment in innovation and research;
- No information was found on whether the EG discussed issues related to taxation (which is addressed in EARs 2 and 3).

Besides these themes, the EG also discussed Brexit (at its [January 2019 meeting](#)) and appointments (namely, to the European Central Bank), prepared international meetings (at its [April](#) meeting), Croatia's accession to ERM II (at its [July](#) meeting) and the EG transparency (at its [September](#) meeting). The EG was also debriefed twice (in April and October) by the responsible boards of the Single Supervisory Mechanism and the Single Resolution Mechanism.

3.2 Analysis by the Commission services

From 2014 to 2016, the Commission used to provide a quantitative grid, similar to that used for the CSRs, to assess progress with the EAR. Such assessment - even if complex due to the specific design and role of the EAR, may be seen as crucial for the effectiveness and legitimacy of the instrument. In its [2016 assessment](#), the last one where the Commission adopted a quantitative grid, the Staff Working Document stated "A fuller assessment, based on individual country's progress with the CSRs flagged as relevant for the implementation of the 2016 EARs, will be presented in the country reports of Spring 2017."

Since 2017, the Commission has not published such grid, possibly because the EAR are mostly addressed to Member States, which have to take action to follow such recommendations in the context of implementation of the respective CSRs. Nevertheless, the Commission follows up on the previous year EAR in the recitals for the new EAR and in the Staff Working Document (SWD) that accompanies the new cycle-EAR. Such elements provide a background analysis of developments in the euro area and constitute the

underpinning of the new cycle-EAR. This is clear from the [2018 assessment](#), which accompanied the proposed 2019 EAR: it seems to focus on whether the overall situation in the euro area evolved in a direction consistent with the policy orientations previously established as a basis for proposing the policy options for the new cycle. Insofar the recommendations on deepening the EMU and Banking Union refer to European policies, there is still a European interest (and rationale) for the Commission to assess progress on a yearly basis.

As a novelty, the Commission provided, together with the presentation of the [draft EAR for 2020](#), in its staff working document ([SWD](#)), a *qualitative* assessment of the implementation of the 2019 EAR⁹. The Commission concludes that:

- ✓ Some progress was achieved on reforms aimed to increase potential growth, competitiveness and productivity (namely with progress in the areas of research and innovation). Progress related to network industries and to sustainability has been slower; most Member States improved their business environment scores, but large differences remain and no significant improvement in quality of public finances could be identified;
- ✓ Progress has stalled on the fiscal recommendation, where lack of differentiation in Member States' fiscal policies remain;
- ✓ The labour market and social situation continues to improve, but challenges remain, namely in relation to labour market segmentation and in-work poverty;
- ✓ Resilience of the financial sector has improved, through a number of actions (the backstop to the Single Resolution Fund, work on the European Deposit Insurance Scheme, etc.) but further progress is needed, namely on reduction of non-financial corporations debt;
- ✓ Progress was slow on deepening the EMU, in particular in what concerns a euro area wide stabilisation function and euro area governance, thus hindering the international role of the euro.

The Commission also signals that the 2021 SWD on the EAR will provide a more complete review of progress in implementing the EAR, based on a methodology to be elaborated and discussed with the euro area Member States and institutions in the relevant committees. The review would provide an overview of progress for the EA as a whole in implementing previous year's EAR.

One may note that in the proposed [governance framework](#) for the budgetary instrument for competitiveness and convergence (BICC) that the Commission put forward in July 2019 (see box 5 for further details), it is foreseen that the Commission will annually assess the implementation of the specific EAR¹⁰ setting out the strategic orientations on the reform and investment priorities for the euro area.

IV. Focus on: EMU and Banking Union in the euro area recommendation

Deepening of the EMU and reinforcing Banking Union have been the frontrunner topics in the policy discussions at EG level both in 2018 and 2019.

4.1 Setting the scene: the Eurogroup 2018 discussions

In January 2018, the EG [agreed](#) on focusing discussions on two priority areas: completion of the Banking Union (in adherence to the Council 2016 roadmap, by developing further specific measures concerning risk reduction and risk sharing) and the reform of the European Stability Mechanism (ESM), focusing on its evolving functions and role. The EG concluded that sequencing and holding discussions in a stable and inclusive format would be essential for bringing all views on board. Some Ministers are reported to have

⁹ The assessment is based on reforms undertaken at national and European levels and takes into account policy outcomes at euro level and available assessments at country level. If a specific recommendation is addressed to a number of Member States, only those addressees are considered for the purpose of assessing implementation.

¹⁰ See article 4(2) of the proposed regulation.

requested work to continue as well on other issues – such as a fiscal capacity and improved fiscal rules – in order to reach a comprehensive political decision. Discussions at EG were also framed by policy proposals put forward by a number of Member States (see boxes 3 and 4 below).

Box 3: The Meseberg and the Hanseatic Declarations

In June 2018, **France and Germany** laid out a [roadmap for the Euro Area](#) (known as the Meseberg declaration) addressing ways forward in the deepening of 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). It was suggested to “start working on the possible introduction of Euro Collective Action Clauses with single limb aggregation”, with the ESM mediating between the sovereign and its creditors. Regarding the Banking Union, they supported further steps in reducing and sharing risk in the financial sector, in the appropriate sequence. France and Germany confirmed their pledge to make decisive progress towards a Capital Markets Union. The two Member States complemented their proposals on the 19 November.

In November 2018, 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 (SRF). 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 implied 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. These countries also stated that “single limb CACs” could render more predictable the financial assistance framework. The 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.

Box 4: France-German joint statement of 19 November 2018

The [France-Germany joint statement of 19 November 2018](#) outlined the main elements of a possible euro area budget. 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; **(b)** be employed to foster convergence and incentivise the implementation of growth enhancing reform, “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 upon 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) by European resources (the reform delivery tool), and on the basis of regular contributions from euro area Member States channelled to the EU budget through 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 one 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)** a multiannual cap would 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 through inter-governmental agreements.

Since then, the EG has advanced discussions on both issues. The [3 December 2018 Eurogroup](#) delivered political agreement on a “*comprehensive plan to strengthen the Euro*” that materialised in:

- (1) a [report to the Euro Leaders](#) meeting of 14 December and 3 annexes, dealing with (a) the [terms of reference for the Single Resolution Fund backstop](#), (b) the [ESM Term sheet](#) and (c) the [ESM-COM cooperation agreement](#),

- (2) a proposal for the establishment of a High Level Working Group on a European deposit insurance scheme (HLWG on EDIS), with a broad mandate encompassing other missing elements such as liquidity in resolution, and
- (3) a possible budgetary instrument for the euro area¹¹ (the budgetary instrument for convergence and competitiveness, BICC¹²). Discussions on BICC are also linked to the Multiannual Financial Framework and the Commission proposals therewith aiming at deepening the EMU (see box 5 below).

Following endorsement of the EG proposals by the [December 2018](#) Euro Summit, the EG continued discussions in 2019 on deepening the EMU (point 4.2 below), the ESM reform (point 4.3 below) and the budgetary instrument for the euro area (point 4.4 below).

Box 5: Commission MFF proposals related to EMU governance

As part of the Multiannual Financial Framework, the Commission put forward in May 2018 a number of proposals on the so called Heading II - Cohesion and Values - addressing the [deepening of the EMU](#). Such proposals encompass three specific goals, to be coordinated within the European Semester:

- (1) support structural reforms (through three different and complementary instruments integrated in the [Reform Support Programme](#) - Reform Delivery Tool, Convergence Facility and Technical Support Instrument);
- (2) support investment, through the European Structural and Investment Funds and the InvestEU Fund;
- (3) provide stabilisation in case of shocks, through the new European Investment Stabilisation Function (EISF) - which would complement the European Stability Mechanism (ESM) and the balance of payments facility, providing EU Member States instruments allowing rapid economic rebound in case of shocks and prevent these from evolving into crisis and spilling over to other EU economies.

In addition to that, and outside the MFF, the Commission put forward a proposal for a [governance framework for BICC](#).

4.2 Eurogroup advancements on Banking Union issues in 2019

On the Banking Union front, and after preliminary discussions in [January](#), the EG was updated in [April](#) on progress with the discussions on a roadmap for beginning political negotiations on EDIS and further work planned until June 2019.

In [June](#), Ministers discussed a [report](#) with the personal considerations of the Chair of the HLWG on EDIS and [recognised](#) that further technical work will be needed on defining a transitional path to the steady state Banking Union. As explained in the report, discussions have particularly come up against the right sequencing of reforms, the design of EDIS (i.e. mutualisation vs co-insurance), home/host issue and the regulatory treatment of sovereign exposures. The report also advocated the continuing implementation of (i) the NPL Action Plan, including relevant supervisory measures; (ii) the Banking Package, including the

¹¹ The report to Euro Leaders mentions Ministers having reached agreement on a “possible instruments for competitiveness, convergence and stabilisation in EMU” but limited in scope to convergence and competitiveness. As referred in the [report](#): “The possible features of a stabilisation function were also discussed, including the unemployment insurance scheme. We did not reach a common view on the need and design of such a function. Technical discussions continue.”. The Euro Summit Leaders statement further mentions that: “In the context of the Multiannual Financial Framework (MFF), we mandate the Eurogroup to work on the design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness for the euro area, and ERM II Member States on a voluntary basis. It will be part of the EU budget, coherent with other EU policies, and subject to criteria and strategic guidance from the euro area Member States. We will determine its size in the context of the MFF. The features of the budgetary instrument will be agreed in June 2019. The instrument will be adopted in accordance with the legislative procedure, as foreseen by the Treaties, on the basis of the relevant Commission proposal to be amended if necessary.”.

¹² As explained by the [Council](#), the BICC “establishes a new fiscal tool dedicated to the euro area. By promoting convergence and competitiveness, this budgetary instrument intends to help bring economies closer into line and increase the efficacy of monetary policy and, in so doing, to ease concerns about the need for permanent fiscal transfers.”.

accumulation/build-up of MREL; (iii) the build-up of national Deposit Guarantee Schemes to the target level of covered deposits; and (iv) the anti-money laundering (AML) Action Plan. The [PEG](#) noted after the meeting that “Countries are not yet ready to take a decision on the next steps. More work is needed on this file and we have to define the sequence of the decision making process.”. In June, Ministers also took stock of work being done to address liquidity in resolution - having opted to pursue work on the more consensual options, i.e. the proposal of a SRB guarantee to the Euro system and the capacity of the SRB to provide collateral to banks in resolution. Eurogroup was also debriefed in June on the levels of NPLs.

In [November](#) Ministers were updated by the Chair of the HLWG on latest progress and informed of further work planned until December. The [PEG](#) noted after the meeting that discussions are focusing on “the features of a steady state banking union, including a fully-fledged EDIS but also other elements such as insolvency laws, cross-border integration, regulatory treatment of sovereign exposures and a safe asset.”. He also referred that Ministers took note of a [German paper](#) (see Box 6 below) and that he sensed “a new mood in the room and I hope that next month we will be able to agree on a roadmap to start political negotiations on this very important file.”.

Box 6: German Finance Minister proposal on completing the Banking Union

In an [op-ed](#) in the Financial Times and in a speech at [Bloomberg](#) “Future of Finance” Conference in Frankfurt, the German Finance Minister put forward, on 6 November, a plan to break the deadlock on completing the Banking Union. Such [plan](#) addresses the following four areas:

(1) Efficient supervisory regime and crisis management

- Common insolvency and resolution mechanisms for all banks, irrespective of their size and whether they are systemically important (namely, to ensure instruments like transfer of deposits and bridge banks would be available also to deal with smaller banks, with an enhanced role for the Single Resolution Board). Nevertheless, the Single Resolution Fund would still not cover non-systemically relevant institutions
- US Federal Deposit Insurance Corporation as an example to be looked at
- dealing with home-host issues in an equitable manner by allowing flexibility to efficiently allocate capital and liquidity within the Banking Union in normal times; and a clear allocation of capital and liquidity between parent company and subsidiaries in times of crisis; allocation to follow a mandatory “waterfall” payment scheme, based on statutory provisions and a decision by the Single Supervisory Mechanism and the Single Resolution Board; possibly requiring further harmonising bank company law (creating a European legal form for banks or to refine the design of the European Company).

(2) Further reduction of risks

- Lower the levels of non-performing loans
- Review the regulatory treatment of sovereign bonds through risk based concentration charges and “safe portfolios”
- Improve policies and practices to combat money laundering and terrorist financing across the EU.

(3) European deposit insurance

- create a European deposit insurance mechanism through a reinsurance scheme based on an Intergovernmental Agreement to complement national Deposit Insurance Schemes fully set up under the deposit guarantee systems directive, to be coupled with a European Deposit Insurance Fund (DIF) to be administered by the Single Resolution Board and with national compartments and a clear waterfall that preserves national responsibility.

(4) Prevention of arbitrage

- adopt a common corporate tax base and a minimum effective taxation to ensure uniform taxation of banks within the EU.

The 2019 [December](#) EG took stock of developments at the level of the HLWG and recognised that important elements for a strengthened Banking Union are therein contained. Nevertheless, the PEG recognised, in his [remarks](#) after the meeting, that “They are not yet ripe for endorsement or an in-depth discussion at ministers’ level.”. In its [letter](#) to the EG, the Chair of the HLWG set out a programme for a fully-fledged Banking Union:

it consists of full implementation of EDIS with loss coverage; diversification of banks' portfolios of sovereign exposures; significant reduction of banks NPLs and its appropriate monitoring; well integrated banking sector operating efficiently and safely across borders; appropriate crisis management framework. Such work plan could span from 2019 to 2024, with a longer implementation phase. Work will continue on the set-up and features of EDIS, on bank's sovereign exposures, on the crisis management framework and on financial integration. [Ministers](#) have mandated the HLWG to continue working and report back by June 2020.

4.3 Eurogroup advancements on ESM reform in 2019

In [June 2019](#), the EG reached a [broad agreement](#) on revising the text of the ESM [treaty](#), covering issues such as the common backstop for bank resolution, the precautionary instruments, debt sustainability, as well as institutional aspects, including the cooperation between the ESM and the European Commission within and outside financial assistance programmes. The [PEG](#) summing up letter further noted that the common SRF backstop will be established at the latest by the end of the transition period and that it may be introduced earlier, provided that sufficient progress has been made in risk reduction (to be assessed in 2020¹³). In [July](#), the EG discussed ESM again, and notably agreed to finalising the package of documents related to the revision of the ESM Treaty by December (the introduction of "Guidelines on the common backstop" and the resolutions of the ESM Board of Governors on the main features of the backstop; the abolition of the Direct Recapitalisation of Institutions instrument; work on the early introduction of the backstop, amendments to the Guideline on the precautionary instruments and the common methodological working document on debt sustainability analysis).

In their [November](#) meeting, Ministers were updated on technical progress (an amended ESM Guideline for precautionary programs and the common methodology on Debt Sustainability Analysis were finalised, and the Memorandum of Cooperation between the Commission and the ESM being almost closed) and further discussed the backstop for the Single Resolution Fund. There, the PEG noted that "*work is advanced on the Guideline and Board of Governors resolutions*" and that Ministers would "*come back to the backstop, including the early introduction, at our next meeting, on 4 December.*".

In their [December](#) meeting, Ministers reached an agreement in principle, subject to national procedures, on the package of draft documents related to the ESM reform: those relating to the common backstop to the Single Resolution Fund¹⁴, those relating to the amendments to the [ESM precautionary financing instruments](#) and those on the terms of reference and explanatory note of single limb Collective Action Clauses (CACs)¹⁵ to be introduced by the 1st of January 2022¹⁶. An amendment to the ESM Treaty is expected to be signed in early 2020. Ministers greeted the agreement reached between the Commission and ESM on their future cooperation arrangements and the finalisation of a working document on a common methodology on debt sustainability analysis¹⁷.

¹³ For a detailed analysis of the proposed amendments to the ESM treaty, please see [specific EGOV paper](#).

¹⁴ Ministers agreed on a [Backstop Guideline](#) and three draft Board of Governors resolutions ([one](#) determining the nominal cap and setting out the provisions on the permanence of the legal framework; a [resolution](#) granting the backstop facility and determining the key financial terms and conditions thereof and for the termination of the backstop facility; a [third resolution](#) confirming that that the Direct Recapitalisation Instrument (DRI) of the ESM will be cancelled once the common backstop is introduced). One additional guideline on [pricing policy](#) is also available.

¹⁵ The document does not seem to be publicly available.

¹⁶ The [PEG letter](#) notes, nevertheless, that the legal status of such terms of reference are to be clarified ahead of signing the ESM treaty amendment.

¹⁷ Both documents seem not to have been made public.

4.4 Eurogroup advancements on a budgetary instrument in 2019

Lastly, in what concerns the budgetary instrument, Ministers held discussions in [January](#), [February](#), [March](#), [April](#) and [May](#)¹⁸ 2019. In their [June](#) meeting, Ministers reached agreement on the [instrument term sheet](#), but nevertheless could not agree on appropriate options for its financing and no consensus emerged in relation to a stabilisation function either. PEG further noted, in its remarks after the meeting, that *“More work is needed, but today we have taken a number of small steps that combined result in real progress.”*. In its [Communication](#) on the Multiannual Financial Framework (MFF) addressed to the June European Council¹⁹, the Commission also noted that *“Substantial progress has also been achieved on the features of a budgetary instrument for convergence and competitiveness for the euro area. (...) work is progressing rapidly on the basis of the Commission’s proposal for a Reform Support Programme. Positions are converging and agreement on the main features of the instrument is getting closer.”*

Discussions continued in [July](#)²⁰ and [September](#) meetings, and agreement on all aspects of BICC, namely, governance and financing, the allocation methodology, key features of the modulation of the national co-financing rate and on defining appropriate arrangements for non-euro area Member States not participating in the BICC was reached at the [October](#) EG meeting²¹ (see annex 6).

In its remarks after the October EG meeting, the PEG concluded that the *“BICC [will be] an innovative tool, different from other EU funds. (...) But this is not a cohesion fund. It is an instrument for all members of the euro area. Each and every Member State will receive funding – even the wealthiest Member States get back at least 70% of what they put in.”* He further added that the instrument will be flexible and would require co-financing by Member States (to reinforce ownership), the rates of which could be modulated in cases of severe economic circumstances. The EG also *“understands”* that the agreement on BICC will not preclude discussions on the Commission’s proposals on the Convergence Facility and the Technical Support Instrument. The EG is nevertheless silent in respect to other pillars of Commission’s proposals, namely, the European Investment Stabilisation Function and the Reform Delivery Tool. BICC seems to supersede the Reform Delivery Tool, one of the legs of the Commission proposal for a Reform Support Programme²². The European Investment Stabilisation Function appears to be currently absent from EG discussions.

In the meantime, in July 2019, the Commission put forward a legislative proposal for a regulation under articles 136(1)(b) and 121(6) of TFUE for a [governance framework for BICC](#).

In its November meeting, Ministers were informed that the *“legislative acts that set up BICC are underway”*, as PEG reported after the meeting. He also underlined that *“several members asked for a dedicated regulation on*

¹⁸ Information on what is discussed and actual outcomes are often absent in EG published summing up letters and press releases. One of such examples is the summing up letter of the [September](#) meeting: *“While some would like to use only the EU budget own resources for the time being, others prefer to have the possibility to scale the instrument up; this raises some concerns which we will attempt to tackle.”*, where the concerns referred to are not clarified. On EG transparency, see [EGOV document](#) on the role and accountability of the President of the Eurogroup.

¹⁹ “Roadmap to an agreement on the Union’s long-term budget for 2021-2027”.

²⁰ One should note that the PEG [summing up letter](#) after the July meeting points to some Ministers having requested work on a stabilisation function for the euro area to continue. Nevertheless, no further references are found to that on EG public information.

²¹ No decision is yet made on the financial envelope for the BICC. Leaders will decide in the framework of the Multiannual Financial Framework discussions. It is nevertheless [expected](#) that the BICC will draw on funds assigned to the Reform Delivery Tool (RDT) in the Commission proposal for the 2021-2027 European Union budgetary package. According to this proposal, the RDT would have an envelope of €25 billion, of which €17 billion would be allocated to the 19 euro area countries (at this stage, the amounts are purely indicative).

²² A reference in the background information to Commission legal proposal of a governance framework for BICC to *“the relevant Commission legislative proposal to be amended if necessary”* replicates, word by word, a sentence in the 14 June EG BICC term sheet. Therefore the Commission legal proposal for a governance framework for BICC looks like an amended proposal for the [Reform Support Programme](#) (see point 3 of the explanatory memorandum accompanying the Commission [governance proposal](#)). Such amended proposal would incorporate the BICC in the Reform Support Programme.

the BICC on the grounds that it is a standalone instrument” and that work would continue on the various work streams, namely on the Intergovernmental agreement to underpin Member States contributions. In their [December](#) meeting, Ministers were informed of progress on the technical work relating to the need, content, size and modalities of an intergovernmental agreement allowing further funds to be endowed to the BICC. Ministers will come back to the BICC in 2020. The [December Euro Summit statement](#) further refers the BICC will be part of the discussions that the President of the European Council will have with the Member States in the context of the MFF.

In parallel with the BICC, the EG also [discussed](#) a possible instrument for the non-euro area Member States (the Convergence and Reform Instrument (CRI)), to support the convergence of non-euro area Member States towards the euro area, by providing financial support for structural reforms. It is aimed at non euro area countries with structural challenges, as evidenced by income per capita below the euro area average. The EG states that the CRI would build on the existing Commission legislative proposal (which seems to be a reference to the Commission proposal for a Convergence Facility under the Reform Support Programme). Its governance would be clearly distinct from the governance structure of the BICC. The CRI would draw on the coordination mechanisms of the European Semester, including the country-specific recommendations, to identify the focus areas of the instrument. The amounts to be allocated could comprise the non-euro area share of the financial envelope of the Reform Delivery Tool, as well as the envelope assigned for the Convergence Facility proposed by the Commission in its original MFF proposal. Nevertheless, the [Finnish Presidency negotiating box on MFF](#) proposes an amount of EUR 5 511 million to the CRI.

V. The draft 2020 euro area recommendation

The Commission presented its draft EAR for 2020 as part of the [2020 Autumn Package](#) on 17 December 2019 ([draft EAR](#) and the [Staff Working Document](#)).

The 2020 draft EAR reflects the Commission priorities for the euro area along four policy areas:

- Structural reforms: product, services and labour markets (recommendations 1 and 3);
- Fiscal policies (recommendation 2);
- Financial sector/Banking Union (recommendation 4);
- Deepening of the EMU (recommendation 5).

Compared to the 2019 EARs adopted by Council, the 2020 draft EAR are longer and provide more granular policy orientations. On these more granular policy orientations, one can highlight:

- A call for enhancing democratic accountability of the EMU (EAR 5)²³;
- An alert that Member States need to be attentive to the economic outlook and stand ready to deliver a supportive fiscal stance at the aggregate level (respecting the SGP and national specific circumstances and avoiding pro-cyclicality) (EAR 2)²⁴;

²³ Although such reference is not fully clear, recital 16 of the [draft EAR](#) reads: “Additionally, the move towards intergovernmental solutions has not been matched by appropriate accountability at EU level. Therefore, improvements in the governance of the euro area bodies would be instrumental to increase democratic accountability.”. Likewise, the [SWD](#) accompanying the draft EAR refer that “it would also be important to integrate the intergovernmental agreements into Union law and under the European Parliament’s oversight.”.

²⁴ The [SWD](#) helps clarifying the Commission concerns here. Looking at the economic outlook, the Commission points out that Member States may be required to pursue expansionary discretionary fiscal policies. The Commission recalls the European Economic Recovery Plan and favourably assesses its impacts to counteract the effects of the 2007/2008 economic, financial and sovereign crisis. Nevertheless, the Commission highlights that such actions need to be “timely, targeted and temporary” and, in the draft EAR, further conditions expansionary measures to their compliance with the SGP, country specific circumstances and avoiding pro-cyclicality.

- Strong emphasis on digital and environmental challenges, in line with the President Ursula von den Leyen political guidelines, and a concern to ensure that social policies take these dimensions into account (in particular in EAR 3);
- Different focus on the Capital Markets Union: insofar the various files the Commission has put forward are broadly finalised, the Commission proposes in the EAR 4 to “renew efforts” to complete the Capital Markets Union²⁵.

Annexes 4 and 5 highlight the main differences: between the Commission proposals for EAR in 2019 and 2020 and between the 2019 EAR as adopted by Council and the 2020 Commission proposal.

According to the Council “[European Semester 2020 roadmap](#)” and the [draft Council agendas](#), the draft EAR has been submitted for an exchange of views among Ministers in the January meeting (Eurogroup and Ecofin). In February, the Council preparatory bodies will discuss the Commission proposals for submission to the EG and Ecofin on 17/18 February. The draft EAR will be then presented to the March European Council for endorsement and final adoption by a later Council.

Box 7: Eurogroup’s work programme for the first half of 2020

The EG adopted its 2020 first semester work programme in [December 2019](#). The EG will:

- Maintain its focus on structural policies aimed at supporting economic and productivity growth in the euro area, reinforcing resilience and promoting convergence, drawing on its regular sharing of national practices and discussions with external experts to promote a common understanding of the structural challenges ahead;
- Continue to closely monitor efforts to ensure sound fiscal policies and assess the budgetary situation in the euro area as a whole, assess draft budgetary plans and be involved in the general evaluation of the EU fiscal rules, from the perspective of the euro area, as appropriate, in the context of the planned review of the legislation;
- Continue to be involved in post programme surveillance in Cyprus, Ireland, Portugal, Spain and following up the enhanced surveillance on Greece and implementation of the medium-term debt measures;
- Monitor financial stability issues and of developments in the global economic outlook including through the preparation of international meetings, to reinforce the international role of the euro and continue work on deepening the EMU and completing the Banking Union.

The EG also intends to take stock of the priorities of the new College for the EMU and will be ready to work on any upcoming relevant proposals.

VI. Euro area recommendations over time: A bird’s eye view

The following considerations can be drawn on the EAR issued by the Council under the European Semester over time:

- The number of recommendations has varied, ranging from seven during the very first European Semester (2011) to four during the 2014-2016 cycles. Since the 2017 European Semester, the Commission has proposed five recommendations on the economic policy of the euro area. This would allow focusing on the most pressing issues, but has also lead to aggregating different subject-matters into a single recommendation. In the 2020 cycle, the draft EAR provides more granular policy orientations, whilst keeping the number of EARs limited to 5;
- The Commission is using the recitals to the recommendations as an instrument to further detail and contextualise them. The recitals sometimes provide useful information in clarifying what the Commission is aiming at with the specific recommendations. That is further complemented with the SWD, and is clearly visible in the SWD for the 2020 cycle;

²⁵ In that regard, the Commission proposals are aligned with the [Council conclusions on CMU](#), adopted in December 2019, and follow up on the Commission mandate for a [High Level Forum on CMU](#).

- Irrespective of the number of recommendations, four broad policy areas have been covered over the period 2011-2020, namely *structural*, *fiscal*, *financial* and *institutional* issues. During the 2014 and 2015 cycles, the dynamic underpinning the EAR was to address one per policy area. Yet, since the 2016 European Semester, the approach has departed from this perspective, tackling structural challenges in two separate recommendations: one targeting policies supporting growth, improving the adjustment capacity, convergence and resilience, as well as correction of macroeconomic imbalances, while the other covering reforms promoting job creation and social fairness. In this sense, the social dimension has somewhat gained space over the fiscal/budgetary dimension, and the 2019 recommendations gave more room to social matters compared to recommendations issued prior to 2016;
- As regards the assessment of implementation of euro area recommendations, the Commission approach has evolved over time. Starting with qualitative assessment provided within its Staff Working Documents (SWDs) on the euro area economy, the Commission also provided, for 2014-2016 euro area recommendations, a summary evaluation based on a “standardised” grid, typically used for Country-Specific Recommendations issued to individual Member States. Since 2017, the Commission has refrained from assessing implementation of the EAR on the basis of such a quantitative grid. The relevant information on how the Commission evaluates developments in the EA can be found in the Staff Working Documents (SWD) that accompany the proposed EAR for the incoming cycle (see table 2). This is clear from the [2018 assessment](#), which accompanies the proposed 2019 EAR and looks back at developments in the EA to build recommendations going forward, and thus providing the underpinning of the new cycle EAR. In the [SWD](#) for 2020 the Commission has reverted to a (more detailed) qualitative assessment (see point 3.2 above).

Table 2 below provides a schematic overview of the Commission’s analysis over time.

Table 2. Implementation of EA recommendations

	European Semester Cycle									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Number of recommendations	7	6	6	4	4	5	5	5	5	
Implementation of recommendations	Qualitative assessment within SWDs (no assessment grid)			1 (25%)	1 (25%)	-	Qualitative assess. within SWD			
				3 (75%)	2 (50%)	4 (75%)				
				-	1 (25%)	1 (25%)				

Source: EGOV based on the Commission SWDs accompanying the proposals for EAR.

Notes: (1) For the sake of presentation, the assessment grid shown in the table is composed of three rather than five categories typically used by the Commission, namely **full/substantial progress**, **some progress** and **limited/no progress**. (2) Based on the Commission assessment of actions taken (rather than outcomes that may materialise with variable lags); assigning identical weights to all recommendations, within and across cycles, irrespective of their institutional and political sensitivities.

Annex 1: An overview of Eurogroup policy actions as regards the 2019 euro area recommendations

<u>2019 Euro Area Recommendation</u>	<u>Policy actions taken by the Eurogroup (based on publicly available information)</u>
<i>EAR 1 (structural policies: products and services markets)</i>	
<i>Deepen the Single Market, improve the business environment and the quality of institutions, and pursue resilience-enhancing reforms for the product and services markets. Reduce external debt and pursue reforms to boost competitiveness, in particular through productivity in euro-area Member States with current-account deficits or high external debt, and strengthen the conditions that support wage growth in a manner that respects the role of social partners. Implement measures that foster investment in euro-area Member States with large current-account surpluses.</i>	
Deepen the Single Market, improve the business environment and the quality of institutions, and pursue resilience-enhancing reforms for the product and services markets.	In its March meeting, the EG discussed the housing markets on the basis of a technical note by the Commission and an oral presentation by Professor Lars E.O. Svensson, Professor of Economics at the Stockholm School of Economics and former Deputy Governor of the Sveriges Riksbank. EG noted the importance of housing markets for macroeconomic stability.
Reduce external debt and pursue reforms to boost competitiveness, in particular through productivity in euro-area Member States with current-account deficits or high external debt, and strengthen the conditions that support wage growth in a manner that respects the role of social partners. Implement measures that foster investment in euro-area Member States with large current-account surpluses.	In its November meeting, the EG exchanged views on investment in innovation and research as a means to boost productivity and competitiveness in the euro area, on the basis of a Commission technical note and a note and presentation by Albert Bravo-Biosca, Director of the Innovation Growth Lab at Nesta. The European Commission underlined that the eurozone underinvests in research and innovation compared to its competitors. Expenditure in R&D (research & development) from the private sector remains low compared to Japan, the US or China and Albert Bravo-Biosca shared concrete recommendations on how to increase the efficiency of innovation policy, namely, by using trials and experimental funds, creating the right incentives, reinventing business regulation and choosing actions that can spark wider system changes. In its remarks after the meeting, the PEG noted that <i>“Innovation fosters productivity and competitiveness of the monetary union, enhancing its resilience and promoting convergence. This was very timely food for thought, also given the need to implement sound policy responses to counter the slowdown.”</i> The EG had several discussions around competitiveness, the euro area fiscal stance and investment (please see below on EAR 2 and 3).
<i>EAR 2 (fiscal policies)</i>	
<i>While pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers, especially in euro-area Member States with high levels of public debt. Support and implement EU actions to combat aggressive tax planning.</i>	
While pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers,	The 20 January EG discussed and adopted the draft proposal for the 2019 EAR, discussed the economic outlook, including the balance of risks, and the policy priorities for the year ahead. EG was debriefed on Commission discussions with Italian authorities over its 2019 budget. The PEG further noted, on his remarks after the meeting that <i>“Late last year the Eurogroup had encouraged this ongoing dialogue as a way to improve the Italian budget</i>

<p>especially in euro-area Member States with high levels of public debt.</p>	<p><i>in the context of the Stability and Growth Pact. It is now important that Italy delivers on these commitments.”.</i> The Finance Minister of Luxembourg also presented at the same meeting the economic and fiscal policy priorities of his country’s new government.</p> <p>In its February meeting, EG was debriefed on the latest missions assessing the Irish and Portuguese financial assistance programmes (the PEG later noted that <i>“in both countries the crisis is a distant memory”</i>), on the Commission winter forecast (PEG noted that <i>“On average, there is a slowdown in the pace of growth, but the economic fundamentals are still solid and the euro area is growing, creating jobs and increasing investment.”</i>) and on the new Latvian Finance Minister priorities.</p> <p>In March, the EG discussed the institutions’ assessment of the Greek financial assistance programme and the updated draft budgetary plan of Latvia. Ministers also took stock of the economic situation in the euro area on the basis of ECB latest staff projections.</p> <p>In April, Ministers discussed Greece, the updated draft budgetary plan of Luxembourg and had an exchange of views with the President of ECON (noting, notably that Ministers <i>“recognised that a constructive dialogue with the European Parliament is beneficial to all of us within the boundaries of our respective institutional roles.”</i>, whilst PEG noted, after the meeting, that such encounters <i>“will continue”</i>).</p> <p>In its May meeting, the EG exchanged views on the economic situation of the euro area and discussed the main policy challenges on the basis of the European Commission Spring forecast. Ministers were also debriefed on the priorities of the new Estonian government.</p> <p>In its June meeting, the EG assessed the implementation of the Cypriot financial assistance programme and adopted its second semester work programme. The EG was debriefed on the Commission spring package and in this context, briefly discussed the situation in Italy. Ministers concurred with the Commission analysis and with the opinion of the Economic and Financial Committee that a debt based Excessive Deficit Procedure is warranted. Ministers also discussed the latest IMF Article IV review of the euro area. Ministers were also debriefed on the priorities of the new Finnish government.</p> <p>In July, the EG discussed the budgetary situation in the euro area as a whole, focusing on prospects for 2020. The Chairman of the European Fiscal Board, Niels Thygesen, presented the EFB’s recently published report and the Commission presented its assessment of the budgetary situation based on its analysis of the 2019 Stability Programmes and its Spring economic forecast to feed the preparation of the draft budgetary plans and the recommendations for the euro area for 2020. The EG summing up letter refers in this respect that <i>“Our discussion showed there is broad consensus that Member States with high debt levels need to rebuild fiscal buffers. At the same time, Member States that have already built such buffers can prioritise investments, boost potential growth and tackle long term challenges. Appropriate and differentiated fiscal policies at the Member State level will lead to a broadly neutral fiscal stance for the euro area as a whole. (...) Several Ministers stressed the importance of preparedness, given that risks to the economic growth forecast are tilted to the downside (...)”</i>. Ministers were also</p>
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	<p>debriefed on the latest assessment of the Spanish financial assistance programme, discussed the situation in relation to the Greek programme and were debriefed by Italy on measures taken and Commission assessment that a debt-based EDP would no longer be warranted.</p> <p>In September Ministers exchanged on the quality of public finances in the euro area, focusing on public investment to share good practices on conducting spending reviews and managing public assets to boost the efficiency of public investment. The discussion was supported by a technical note by the Commission and a presentation by Dag Detter. Ministers were also debriefed on the most recent assessment of Ireland financial assistance programme, G7 meetings and on the priorities of the new Italian and Greek governments.</p> <p>The October EG meeting featured a discussion on competitiveness developments in the euro area on the basis of a Commission technical note. Ministers prepared as well the IMF/WB international meetings, were debriefed on the last assessment of the Portuguese financial assistance programme and discussed the euro area economic situation. In the context of this discussion, Ministers reiterated readiness to respond in a coordinated manner if downside risks materialise and supported a policy mix that avoids pro-cyclicality (where Member States with fiscal space should consider boosting high-quality investment, and to give a stronger emphasis, in the context of policy design for 2020, to reforms and investment in Research and Development and on Climate, acknowledging that Member States with high public debt levels would still need to pursue prudent fiscal policies). As the PEG put it after the meeting, “if there is a more marked downturn, we should not tighten our policies and make it worse. Where possible, fiscal stance should be more accommodative if downward risks materialise.”.</p> <p>In November Ministers were presented with the Commission winter forecast and heard from the Portuguese representative on the priorities of the new government.</p> <p>In its December meeting, Ministers adopted a statement on the 2020 draft budgetary plans.</p>
Support and implement EU actions to combat aggressive tax planning.	The Austrian minister informed other ministers in April about the state of play of discussions on the Financial Transactions Tax and possible next steps.
EAR 3 (Structural policies: labour market and social protection systems)	
<p><i>Shift taxes away from labour and strengthen education and training systems and investment in skills. Improve the effectiveness of active labour market policies that support successful labour market transitions. Promote the creation of quality jobs and address labour market segmentation. Ensure adequate and sustainable social protection systems across the euro area.</i></p>	
Shift taxes away from labour and strengthen education and training systems and investment in skills.	No specific public information was found underpinning these subjects in EG discussions.

<p>Improve the effectiveness of active labour market policies that support successful labour market transitions. Promote the creation of quality jobs and address labour market segmentation.</p>	<p>In its June meeting, Ministers discussed inequality in the euro area, based on the European Commission analysis and a presentation by Philippe Aghion, who gave a presentation on how to reconcile innovation and inclusive growth.</p>
<p><i>EAR 4 (Reforms of the financial sector)</i></p>	
<p><i>Make the backstop for the SRF operational and anticipate this, provided sufficient progress has been made in risk reduction. Pursue work on the EDIS, in particular by setting up a high-level working group. Strengthen the European regulatory and supervisory framework. Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution. Promote orderly deleveraging of large stocks of private debt. Continue to swiftly reduce the level of non-performing loans in the euro area and prevent the build-up of such loans, including by removing debt bias in taxation. Make ambitious progress on the Capital Markets Union.</i></p>	
<p>Make the backstop for the SRF operational and anticipate this, provided sufficient progress has been made in risk reduction. Pursue work on the EDIS, in particular by setting up a high-level working group.</p>	<p>The EG in January “did not discuss details [on EDIS]. We looked at the best way forward, planning our discussions in order to achieve results by June, in particular on the two biggest files we have this semester, the budgetary instrument and EDIS (...)”.</p> <p>An interim report of the HLWG was presented at the EG Meeting in April. Ministers agreed with the approach put forward, of defining a steady state and to work on what is needed in the transition towards such steady state. In June, Ministers discussed a report with the personal considerations of the Chair of the HLWG on EDIS and recognised that further technical work will be needed on defining a transitional path to the steady state Banking Union for relevant elements and their sequencing, adhering to all the elements of the 2016 roadmap. Ministers agreed that this work should include a roadmap for beginning political negotiations on a European deposit insurance system. EG mandated the HLWG to continue working and report back by December 2019. The PEG noted after the meeting that “Countries are not yet ready to take a decision on the next steps. More work is needed on this file and we have to define the sequence of the decision making process.”. The Chair of the HLWG on EDIS reported back to Eurogroup in December 2019 through a letter that sets out a programme for actions in the various dimensions necessary for a fully-fledged Banking Union (i.e. full implementation of EDIS with loss coverage; diversification of banks’ portfolios of sovereign exposures; significant reduction of banks NPLs and its appropriate monitoring; well integrated banking sector operating efficiently and safely across borders; appropriate crisis management framework). Based on previous discussions, the work plan foresees a preparatory and negotiating phase and an implementation phase. The first two could span from 2019 to 2024, and the implementation phase going further. In the preparatory and negotiating phases, the work will continue on the set-up and features of EDIS, on bank’s sovereign exposures, on the crisis management framework and on financial integration. Ministers have mandated the HLWG to continue working and report back by June 2020.</p> <p>Also in June, the EG reached a broad agreement on revising the ESM treaty text covering issues such as the common backstop for bank resolution, the precautionary instrument, debt sustainability as well as institutional aspects, and the cooperation between the ESM and the European Commission within and outside programmes. The PEG summing up letter</p>

	<p>further notes that the common backstop will be established at the latest by the end of the transition period and that it may be introduced earlier provided that sufficient progress has been made in risk reduction to be assessed in 2020.</p> <p>In July, the EG discussed ESM again, and notably agreed to finalising the package of documents related to the revision of the ESM Treaty by December (introduction of the common backstop Guideline and BoG resolution on the main features of the backstop, the abolition of the Direct Recapitalisation of Institutions instrument, work on the early introduction of the backstop, amendments to the Guideline on the precautionary instruments and the common methodological working document on debt sustainability analysis), with progress expected by November. In July Ministers also agreed to continue working in order to report back in December including on a roadmap for beginning political negotiations on EDIS and liquidity in resolution.</p> <p>In its November meeting, the EG took note on the progress made on the legal documents related to ESM treaty, in particular, legal documents related to the common backstop for bank resolution and to the precautionary instruments and were debriefed by the Chair of the High Level Working Group on EDIS on progress made in the discussions on a roadmap for political negotiations and the further work planned until December. In what concerns deepening the Banking Union, the PEG noted after the meeting that Germany had presented a paper that <i>“signals a clear commitment to engage with European partners on a much-needed debate to complete the banking union.”</i>. Still in November, Ministers were updated on technical progress (an amended ESM Guideline for precautionary programs and the common methodology on Debt Sustainability Analysis are finalised and the Memorandum of Cooperation between the Commission and the ESM being almost closed) and further discussed the backstop for the Single Resolution Fund. There, the PEG noted that <i>“work is advanced on the Guideline and Board of Governors resolutions”</i> and that Ministers would <i>“come back to the backstop, including the early introduction, at our next meeting, on 4 December.”</i>. In their December 2019 meeting, Ministers reached an agreement in principle, subject to national procedures, on the package of documents related to the ESM reform: those relating to the common backstop to the Single Resolution Fund, those relating to the amendments to the ESM precautionary financing instruments and those on the terms of reference and explanatory note of single limb Collective Action Clauses (CACs) to be introduced by the 1st of January 2022. An amendment to the ESM Treaty is expected to be signed in early 2020.</p>
<p>Strengthen the European regulatory and supervisory framework.</p>	<p>Ministers had an exchange of views in their April meeting with Andrea Enria, Chair of the ECB Supervisory Board, and Elke König, Chair of the Single Resolution Board and in October. In October, the chair of the European Central Bank's supervisory board, Andrea Enria presented recent activities of the Supervisory Board, focusing on bank profitability, Brexit preparedness, anti-money laundering measures, Basel 3 implementation and the supervisory challenges for 2019, and the Chair of the Single Resolution Board informed ministers about ongoing activities of the SRB, focusing particularly on progress regarding resolution planning, minimum requirement for own funds and eligible liabilities and resolvability, updated</p>

	Ministers on the build-up of the Single Resolution Fund and provided information on Brexit preparations. The summing up letter further points to discussions around the profitability of banks (which remains an issue of concern and requiring structural measures within the sector – changes in business models and further consolidation, as the PEG put it after the meeting) and on anti-money laundering (where Ministers welcomed that it will be better taken into account in prudential supervision).
Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution.	In its June meeting, Ministers “took stock of the technical work undertaken on liquidity provision in resolution (...). Discussions in the second half of the year will continue, in particular on the most consensual options for the refinement of current practices and on the proposals on SRB guarantees to the Eurosystem as well as the capacity of the SRB to provide collateral to banks in resolution”. EWG will report back to the EG by December 2019. In its July meeting, Ministers agreed to continue working in order to report back in December including on a roadmap for beginning political negotiations on EDIS and liquidity in resolution.
Promote orderly deleveraging of large stocks of private debt.	In its discussion on housing markets in the March meeting, Ministers have agreed to continue monitoring house prices and household debt closely. The presentation by Professor Lars Svensson focused on the assessment of risks to financial and macroeconomic stability stemming from household debt, highlighting the impact of debt on private consumption.
Continue to swiftly reduce the level of non-performing loans in the euro area and prevent the build-up of such loans, including by removing debt bias in taxation.	Ministers were presented and discussed in its June meeting the fourth report on risk reduction indicators following a mandate given to the Commission, the ECB and the Single Resolution Board for monitoring and periodic reporting. No public information was found indicating the EG had discussed bias in taxation.
Make ambitious progress on the Capital Markets Union.	No public information was found indicating the EG discussed the CMU. It should be noted, however, that Ecofin discussed rebooting CMU in its September meeting and that the prominent reference to CMU was added to the Commission’s proposals during the Council preparatory bodies’ discussions of the EAR.
EAR 5 (EMU institutional reform)	
<i>Make swift progress on deepening the EMU, building on the statement of the Euro Summit of 14 December 2018, also with a view to strengthening the international role of the euro, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union's internal market and in an open and transparent manner vis-à-vis non-euro-area Member States.</i>	
Make swift progress on deepening the EMU, building on the statement of the Euro Summit of 14 December 2018, also with a view to strengthening the international role of the euro, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union's internal market and in an	Ministers discussed at the January EG the international role of the euro, based on the Commission communication of 5 December 2018, notably on the political and economic dimensions of strengthening its international role and took note that the Commission would pursue work in that area. Ministers returned to the subject in their July meeting. They took stock of the outcome of the European Commission’s sectoral consultations and of the latest economic analysis from the ECB as regards the international role of the euro.

<p>open and transparent manner vis-à-vis non-euro-area Member States.</p>	<p>The PEG reported in January that the EG had established a High Level Working Group to further discuss EDIS in a broader context and should report by April and provide final positions by June (see above on EAR 4).</p> <p>Deepening of the EMU (notably, the budgetary instrument for convergence and competitiveness dimension) was discussed at EG meetings in inclusive format (including non-euro area Finance Ministers) held in January, February, March, April, May. After the January meeting, the PEG signaled that EG <i>“did not discuss details. We looked at the best way forward, planning our discussions in order to achieve results by June, in particular on the two biggest files we have this semester, the budgetary instrument and EDIS (...)”</i>. In their June meeting, Ministers reached agreement on the instrument term sheet but nevertheless could not agree on appropriate options for its financing. No consensus emerged in relation to a stabilisation function either. PEG further noted, in its remarks after the meeting, that <i>“More work is needed, but today we have taken a number of small steps that combined result in real progress.”</i></p> <p>Also in June, the EG reached a broad agreement on revising the ESM treaty text covering issues such as the common backstop for bank resolution, the precautionary instrument, debt sustainability as well as institutional aspects, and the cooperation between the ESM and the European Commission within and outside programmes (see above EAR 4).</p> <p>In its July meeting, Ministers returned to BICC and agreed to continue working on financing aspects, the allocation methodology, the procedure for the modulation of the co-financing rate, and governance aspects. EG will strive to deliver solutions by October in view of MFF discussions. Some Member States are reported as having requested technical work on stabilisation to continue. In its September meeting, the EG continued discussions and agreed that more work is needed on the articulation with the European Semester, the allocation methodology, the modulation procedure and the possible way forward for Member States not participating in the BICC. Agreement was reached at the October meeting covering all aspects of governance and financing, on the allocation methodology, the key features of the modulation of the national co-financing rate and on defining appropriate arrangements for non-euro area Member States not participating in the BICC. The summing up letter further refers to the Legal Opinion by the Council Legal Services outlining the scope and interpretation of a “enabling clause” and of a possible intergovernmental agreement allowing Member States to add funds to BICC. In its remarks after the meeting, the PEG concluded that the <i>“BICC [will be] an innovative tool, different from other EU funds. (...) But this is not a cohesion fund. It is an instrument for all members of the euro area. Each and every Member State will receive funding – even the wealthiest Member States get back at least 70% of what they put in.”</i>. He further added that the instrument will be flexible and would require co-financing by Member States, the rates of which could be modulated in cases of severe economic circumstances.</p> <p>In their December meeting, Ministers were informed of progress on the technical work relating to the need, content, size and modalities of an intergovernmental agreement allowing further funds to be endowed to the BICC. Ministers will come back to the BICC in 2020.</p>
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Source: EGOV based on Eurogroup summing up letters, press releases and press conferences available on the Council homepage (at <https://www.consilium.europa.eu/en/council-eu/eurogroup/>).

The reference date for Eurogroup action is January 2019 to December 2019; nevertheless, the final reference date for the EAR is April 2019 (date of publication in the Official Journal). Integrating Eurogroup actions prior to finalisation of the EAR take into account the fact that the EAR have, from 2018 to 2019, common themes and concerns and the annual cycle of Eurogroup workplan (adopted twice a year).

The split of EAR in subcategories aims to better document Eurogroup action and is based on EGOV assessment taking into account the various subjects reflected in each of the subcategories.

Annex 2: A comparison of the proposals for the 2019 Euro Area recommendation

<u>EAR proposed by the Commission</u> (21 November 2018)	<u>EAR after preparatory discussions</u> (11 January 2019)	<u>Final adopted EAR</u> (9 April 2019)
EA recommendation 1 (Structural policies: products and services markets)		
Main changes: <ul style="list-style-type: none"> • Quality of institutions • Reference to competitiveness rather than productivity 		
2018 EAR 1: Deepen the Single Market, improve the business environment, and pursue resilience-enhancing product and services market reforms. Reduce external debt and pursue reforms to boost productivity in euro area Member States with current account deficits and strengthen the conditions that support wage growth respecting the role of social partners and implement measures that foster investment in euro area Member States with large current account surpluses.	2019 EAR 1: Deepen the Single Market, improve the business environment and the quality of institutions , and pursue resilience-enhancing product and services market reforms. Reduce external debt and pursue reforms to boost competitiveness notably through productivity in euro area Member States with current account deficits or high external debt and strengthen the conditions that support wage growth respecting the role of social partners and implement measures that foster investment in euro area Member States with large current account surpluses.	2019 EAR 1: Deepen the Single Market, improve the business environment and the quality of institutions, and pursue resilience-enhancing reforms for the product and services markets. Reduce external debt and pursue reforms to boost competitiveness, in particular through productivity in euro-area Member States with current-account deficits or high external debt, and strengthen the conditions that support wage growth in a manner that respects the role of social partners. Implement measures that foster investment in euro-area Member States with large current-account surpluses.
EA recommendation 2 (Fiscal policy)		
Main changes: <ul style="list-style-type: none"> • Fully respecting the SGP • Fighting against aggressive tax policies 		
2018 EAR 2 Rebuild fiscal buffers in euro area countries with high levels of public debt, support public and private investment and improve the quality and composition of public finances in all countries.	2019 EAR 2 While pursuing policies in full respect of the Stability and Growth Pact , support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers, especially in euro area countries with high levels of public debt. Support and implement EU actions to combat Aggressive Tax Planning.	2019 EAR 2 While pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers, especially in euro-area Member States with high levels of public debt. Support and implement EU actions to combat aggressive tax planning.
EA recommendation 3 (Structural policies: labour market and social protection systems)		
Main changes: <ul style="list-style-type: none"> • Focus added on training • Promoting quality job creation 		
2018 EAR 3: Shift taxes away from labour and strengthen education systems and investment in skills, as well as the effectiveness of active labour market policies that support transitions. Address labour market segmentation	2019 EAR 3: Shift taxes away from labour and strengthen education and training systems and investment in skills, as well as the effectiveness of active labour market policies that support successful labour market	2019 EAR 3: Shift taxes away from labour and strengthen education and training systems and investment in skills. Improve the effectiveness of active labour market policies that support successful labour market transitions.

<p>and ensure adequate social protection systems across the euro area.</p>	<p>transitions. Promote quality job creation and address labour market segmentation and ensure adequate and sustainable social protection systems across the euro area.</p>	<p>Promote the creation of quality jobs and address labour market segmentation. Ensure adequate and sustainable social protection systems across the euro area.</p>
<p>EA recommendation 4 (Reforms of the Financial sector)</p> <p>Main changes:</p> <ul style="list-style-type: none"> • Risk reduction is needed • High level working group for the EDIS and anticipate the backstop for the Single Resolution Fund • Progress on the Capital Markets Union 		
<p>2018 EAR 4:</p> <p>Make the backstop for the Single Resolution Fund operational, set up a European Deposit Insurance Scheme and strengthen the European regulatory and supervisory framework. Promote orderly deleveraging of large stocks of private debt. Swiftly reduce the level of non-performing loans in the euro area and prevent their build up, including by removing debt bias in taxation.</p>	<p>2019 EAR 4:</p> <p>Make the backstop for the Single Resolution Fund operational and anticipate this provided sufficient progress has been made in risk reduction. Pursue work on a European Deposit Insurance Scheme, with the setting up of a High Level Working Group. Strengthen the European regulatory and supervisory framework. Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution. Promote orderly deleveraging of large stocks of private debt. Continue to swiftly reduce the level of nonperforming loans in the euro area and prevent their build up, including by removing debt bias in taxation. Make ambitious progress on the Capital Markets Union.</p>	<p>2019 EAR 4:</p> <p>Make the backstop for the SRF operational and anticipate this, provided sufficient progress has been made in risk reduction. Pursue work on the EDIS, in particular by setting up a high-level working group. Strengthen the European regulatory and supervisory framework. Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution. Promote orderly deleveraging of large stocks of private debt. Continue to swiftly reduce the level of non-performing loans in the euro area and prevent the build-up of such loans, including by removing debt bias in taxation. Make ambitious progress on the Capital Markets Union.</p>
<p>EA recommendation 5 (EMU institutional reform)</p> <p>Main changes:</p> <ul style="list-style-type: none"> • More transparency towards non-EU countries on discussions relating to the deepening of the EMU 		
<p>2018 EAR 5:</p> <p>Make swift progress on completing the Economic and Monetary Union, also with the perspective to strengthen the international role of the euro, taking into account the Commission proposals, including those concerning the financial sector as well as the Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.</p>	<p>2019 EAR 5:</p> <p>Make swift progress on deepening the Economic and Monetary Union, building on the Statement of the Euro Summit of 14 December 2018, also with the perspective to strengthen the international role of the euro, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union’s internal market and in an open and transparent manner towards non-euro-area Member States.</p>	<p>2019 EAR 5:</p> <p>Make swift progress on deepening the EMU, building on the statement of the Euro Summit of 14 December 2018, also with a view to strengthening the international role of the euro, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union’s internal market and in an open and transparent manner vis-à-vis non-euro-area Member States.</p>

Source: EGOV based on the Commission proposal for the euro area recommendations, the proposals as amended by the Eurogroup Working Group and Economic and Financial Committee and the final version as published.

Annex 3: A comparison of the 2018 and 2019 Council Euro Area recommendations

<u>2018 Council Recommendation</u> (14 May 2018)	<u>2019 Council Recommendation</u> (9 April 2019)
EA recommendation 1 (Structural policies: products and services markets)	
<p>2019 EA recommendation 1 - Broadly unchanged emphasis but less prescriptive policy indications. To note:</p> <ul style="list-style-type: none"> In 2019 Member States are recommended to <i>strengthen</i> the conditions to support wage growth, whilst in 2018 the message was <i>to create the conditions</i> that support wage growth References to wage growth and unit labour costs were, in 2018, more differentiated depending on the conditions of a Member State, whilst in 2019 all Member States are asked to strengthen the conditions that support wage growth (with limitations still for those Member States with high debt levels) Investment is a repeated concern addressed to Member States with large current-account surpluses 	
<p>2018 EAR 1:</p> <p>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, <i>create the conditions to promote wage growth</i> 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.</p>	<p>2019 EAR 1:</p> <p>Deepen the Single Market, improve the business environment and the quality of institutions, and pursue resilience-enhancing reforms for the product and services markets. Reduce external debt and pursue reforms to boost competitiveness, in particular through productivity in euro-area Member States with current-account deficits or high external debt, and <i>strengthen the conditions that support wage growth</i> in a manner that respects the role of social partners. Implement measures that foster investment in euro-area Member States with large current-account surpluses.</p>
EA recommendation 2 (Fiscal policy)	
<p>2019 EA Recommendation 2 - Broadly unchanged emphasis, less detailed policy orientations, but with some noteworthy elements:</p> <ul style="list-style-type: none"> No specific reference to the fiscal stance in 2019 (referred only in recital 4) The recommendation to build up of fiscal buffers is <i>especially</i> directed to Member States with high levels of public debt, whilst in 2018 it was directed to all member States, although recognising the need to continue strengthening economic growth potential Strong focus on tax issues in 2018, replaced, in 2019, by a sole reference to implementing actions against aggressive tax planning Spending reviews are not mentioned anymore in 2019 EAR and the EAR makes specific reference to supporting investment, both public and private 	
<p>2018 EAR 2</p> <p>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</p>	<p>2019 EAR 2</p> <p>While pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers, <i>especially</i> in euro-area Member States with high levels</p>

<p>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 CCCTB.</p>	<p>of public debt. Support and implement EU actions to combat aggressive tax planning.</p>
<p>EA recommendation 3 (Structural policies: labour market and social protection systems)</p>	
<p>2019 EA Recommendation 3 - Broadly unchanged emphasis, but sharper policy recommendations. To note:</p> <ul style="list-style-type: none"> • Maintaining concerns on shifting taxes away from labour and on promoting creation of quality jobs • In both 2018 and 2019, noted a concern for the <i>sustainability</i> of social protection systems 	
<p>2018 EAR 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) <i>sustainable</i> 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 taxes away from labour, particularly for low-income earners and second earners.</p>	<p>2019 EAR 3: Shift taxes away from labour and strengthen education and training systems and investment in skills. Improve the effectiveness of active labour market policies that support successful labour market transitions. Promote the creation of quality jobs and address labour market segmentation. Ensure adequate and <i>sustainable</i> social protection systems across the euro area.</p>
<p>EA recommendation 4 (Reforms of the Financial sector)</p>	
<p>2019 EA Recommendation 4 - Broadly unchanged emphasis, with new elements, such as a reference to:</p> <ul style="list-style-type: none"> • Swiftly reducing the level of non-performing loans by preventing their build-up, including by removing <i>debt bias in taxation</i> • Different emphasis on Capital Markets Union, more ambitious in 2019 • Specific reference to anticipating the backstop to the Single Resolution Fund • Specific reference to liquidity provision in resolution 	
<p>2018 EAR 4:</p>	<p>2019 EAR 4:</p>

<p>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.</p>	<p>Make the backstop for the SRF operational and anticipate this, provided sufficient progress has been made in risk reduction. Pursue work on the EDIS, in particular by setting up a high-level working group. Strengthen the European regulatory and supervisory framework. Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution. Promote orderly deleveraging of large stocks of private debt. Continue to swiftly reduce the level of non-performing loans in the euro area and prevent the build-up of such loans, including by removing debt bias in taxation. Make ambitious progress on the Capital Markets Union.</p>
EA recommendation 5 (EMU institutional reform)	
<p>2019 EA Recommendation 5 - Main changes include reference to:</p> <ul style="list-style-type: none"> • Completing the EMU with the perspective to <i>strengthen the international role of the euro</i> 	
<p>2018 EAR 5:</p> <p>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.</p>	<p>2019 EAR 5:</p> <p>Make swift progress on deepening the EMU, building on the statement of the Euro Summit of 14 December 2018, also with a view to <i>strengthening the international role of the euro</i>, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union's internal market and in an open and transparent manner vis-à-vis non-euro-area Member States.</p>

Source: EGOV, based on the 2018 and the 2019 euro area recommendations

Annex 4: A comparison between the EAR 2019 and the draft 2020 Euro Area recommendation

<p align="center"><u>2019 Council Recommendation</u> (21 November 2018)</p>	<p align="center"><u>2020 draft Council Recommendation</u> (17 December 2019)</p>
<p align="center">EA recommendation 1 (Structural policies: products and services markets)</p>	
<p>2020 EA recommendation 1 - Broadly unchanged emphasis, but with more prescriptive policy indications.</p> <ul style="list-style-type: none"> • In 2019, the recommendation referred to Member States with <i>current account deficits</i>, whilst in 2020, Member States with <i>current account deficits or high external debt</i> are addressed • Strong focus on wage growth and public & private investments in Member States with large current account surpluses • Emphasis on fostering productivity in all Member States • New element on sustainability by supporting a fair and inclusive transition towards a competitive green and digital economy 	
<p>2019 EAR 1:</p> <p>Deepen the Single Market, improve the business environment, and pursue resilience-enhancing product and services market reforms. Reduce external debt and pursue reforms to boost productivity in euro area Member States with current account deficits and strengthen the conditions that support wage growth respecting the role of social partners and implement measures that foster investment in euro area Member States with large current account surpluses.</p>	<p>2020 EAR 1:</p> <p>In euro area Member States with <i>current account deficits or high external debt</i>, pursue reforms to boost competitiveness and reduce external debt. In euro area Member States with large current account surpluses, strengthen the conditions that support wage growth, while respecting the role of social partners, and implement measures that foster public and private investment. In all Member States, foster productivity by improving the business environment and the quality of institutions, enhance resilience by improving the functioning of goods and services markets especially by deepening the Single Market. Support a fair and inclusive transition towards a competitive green and digital economy through tangible and intangible investment, both public and private.</p>
<p align="center">EA recommendation 2 (Fiscal policy)</p>	
<p>2020 EA recommendation 2 - More detailed/tangible policy indications</p> <ul style="list-style-type: none"> • No reference to build up fiscal buffers in 2020, however, Member States with high debt levels are called to pursue prudent policies to reduce debt • The recommendation to boost/support investments is directed to Member States with a <i>favourable fiscal position</i>, whilst in 2019 it was addressed to all Member States • Different emphasis on policy implementation in case of worsening outlook - Member States are recommended to deliver a <i>supportive fiscal stance</i> while avoiding pro-cyclicality • Strong focus on a quality of national public finances and national fiscal frameworks compared to 2019 • Specific reference to support and adopt growth-friendly tax and EU actions to combat Aggressive Tax Planning and reduce corporate taxation 	
<p>2019 EAR 2</p> <p>Rebuild fiscal buffers in euro area countries with high levels of public debt, support public and private investment and improve the quality and composition of public finances in all countries.</p>	<p>2020 EAR 2</p> <p>In Member States with high debt levels, pursue prudent policies to put public debt credibly on a sustainable downward path. In Member States with a <i>favourable fiscal position</i>, use it to further boost high-quality investments. In case of a worsening outlook, deliver a <i>supportive fiscal stance</i> at the aggregate level, while pursuing policies in full respect of the Stability and Growth Pact, taking into account country specific circumstances and avoiding pro-cyclicality to the extent possible, and stand ready to coordinate policies in the Eurogroup. Improve the effectiveness of</p>

	<p>national fiscal frameworks and the quality of public finances and adopt growth-friendly tax and other relevant budgetary measures that foster a sustainable economy. Support and implement EU actions to combat Aggressive Tax Planning and address a race to the bottom in corporate taxation.</p>
EA recommendation 3 (Structural policies: labour market and social protection systems)	
<p>2020 EA recommendation 3 - Sharper policy indications, with new elements. To note:</p> <ul style="list-style-type: none"> References to effectiveness of labour market policies were, in 2019, focused on supporting labour market transition, whilst in 2020 the focus shifted to convergence of fair working and living conditions, including to <i>more digital and green jobs</i>. Maintaining concerns on shifting taxes away from labour (particularly for low-income and second earners) and on promoting the creation of quality jobs Specific reference to promoting women participation, collective bargaining and <i>sustainability</i> of social protection systems 	
<p>2019 EAR 3: Shift taxes away from labour and strengthen education systems and investment in skills, as well as the effectiveness of active labour market policies that support transitions. Address labour market segmentation and ensure adequate social protection systems across the euro area.</p>	<p>2020 EAR 3: Strengthen education and training systems and investment in skills. Increase the effectiveness of active labour market policies that support labour market integration and successful labour market transitions, including to <i>more digital and green jobs</i>. Promote participation in the labour market, including that of women, and shift taxes away from labour, in particular for low-income and second earners. Foster quality job creation, fair working conditions and address labour market segmentation. Improve access to adequate and <i>sustainable</i> social protection systems. Enhance the effectiveness of social dialogue and promote collective bargaining.</p>
EA recommendation 4 (Reforms of the Financial sector)	
<p>2020 EA recommendation 4 - Broadly unchanged emphasis, with new elements, such as a reference to:</p> <ul style="list-style-type: none"> BU: starting political negotiations on the EDIS and improving crisis management and liquidity in resolution Promoting orderly deleveraging of large stocks of private debt, including by <i>removing debt bias in taxation</i> In both 2019 and 2020, noted a recommendation to strengthen the European regulatory and supervisory framework but adding a reference to enforcing <i>anti-money laundering rules</i> in 2020 Renewing efforts to complete CMU 	
<p>2019 EAR 4: Make the backstop for the Single Resolution Fund operational, set up a European Deposit Insurance Scheme and strengthen the European regulatory and supervisory framework. Promote orderly deleveraging of large stocks of private debt. Swiftly reduce the level of non-performing loans in the euro area and prevent their build up, including by <i>removing debt bias in taxation</i>.</p>	<p>2020 EAR 4: Complete the Banking Union by starting political negotiations on the European Deposit Insurance Scheme, taking steps to improve crisis management and making provisions for liquidity in resolution and the backstop for the Single Resolution Fund operational. Strengthen the European regulatory and supervisory framework, including by reinforcing the supervision and enforcement of <i>anti-money laundering rules</i>. Promote orderly deleveraging of large stocks of private debt including by <i>removing debt bias in taxation</i>. Continue to enable the swift reduction of the level of nonperforming loans by banks in the euro area and prevent their build up. Renew efforts to complete the Capital Markets Union.</p>

EA recommendation 5 (EMU institutional reform)	
<p>2020 EA recommendation 5 - Main changes include reference to:</p> <ul style="list-style-type: none"> • Completing/Deepening the EMU with the perspective to project Europe’s economic interests globally • In 2020, Member States are recommended to <i>make ambitious progress on deepening</i> the EMU and enhancing its democratic accountability, whilst in 2019 the message was to make a <i>swift progress on completing</i> the EMU • In 2020, there is no reference to RSP and EISF under the proposal for the 2021-2027 MFF 	
<p>2019 EAR 5:</p> <p>Make <i>swift progress</i> on <i>completing the Economic and Monetary Union</i>, also with the perspective to strengthen the international role of the euro, taking into account the Commission proposals, including those concerning the financial sector as well as the Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.</p>	<p>2020 EAR 5:</p> <p>Make <i>ambitious progress</i> on <i>deepening the Economic and Monetary Union</i>, delivering swiftly on the actions identified in the Statement of the Euro Summit of December 2019 and advancing on all other aspects with the perspective to strengthen the international role of the euro and to project Europe’s economic interests globally. Deepen the Economic and Monetary Union and enhance its democratic accountability while fully respecting the Union’s internal market and in an open and transparent manner towards non-euro area Member States.</p>

Source: EGOV, based on the 2019 and the 2020 euro area recommendations

Annex 5: 2019 Euro Area Council Recommendation compared to 2020 Commission proposal

2019 Council Recommendation (adopted text)	2020 draft Council Recommendation (COM proposal)
EA recommendation 1 (Structural policy)	
Main changes: <ul style="list-style-type: none"> • Both public and private investment are needed • Fostering productivity in all Member States, not only the ones with current-account deficits or high external debts • Investments for the green and digital economy transition 	
Deepen the Single Market, improve the business environment and the quality of institutions, and pursue resilience-enhancing reforms for the product and services markets. Reduce external debt and pursue reforms to boost competitiveness, in particular through productivity in euro-area Member States with current-account deficits or high external debt, and strengthen the conditions that support wage growth in a manner that respects the role of social partners. Implement measures that foster investment in euro-area Member States with large current-account surpluses.	In euro area Member States with current account deficits or high external debt, pursue reforms to boost competitiveness and reduce external debt. In euro area Member States with large current account surpluses, strengthen the conditions that support wage growth, while respecting the role of social partners, and implement measures that foster public and private investment. In all Member States, foster productivity by improving the business environment and the quality of institutions, enhance resilience by improving the functioning of goods and services markets especially by deepening the Single Market. Support a fair and inclusive transition towards a competitive green and digital economy through tangible and intangible investment, both public and private.
EA recommendation 2 (Fiscal policy)	
Main changes: <ul style="list-style-type: none"> • Adopt prudent fiscal policies to decrease the debt in Member States with high debt levels, instead of building fiscal buffers • Support high quality investments in Member States with <i>favourable fiscal positions</i> • Public finances allocated to create fiscal stance through the <u>BICC</u> • Improve the effectiveness of national fiscal frameworks • Adopt taxes and measures towards a sustainable development and reduce corporate taxation 	
While pursuing policies in a manner that fully respects the Stability and Growth Pact, support public and private investment and improve the quality and composition of public finances. Rebuild fiscal buffers, especially in euro-area Member States with high levels of public debt. Support and implement EU actions to combat aggressive tax planning.	In Member States with high debt levels, pursue prudent policies to put public debt credibly on a sustainable downward path. In Member States with a favourable fiscal position, use it to further boost high-quality investments. In case of a worsening outlook, deliver a supportive fiscal stance at the aggregate level, while pursuing policies in full respect of the Stability and Growth Pact, taking into account country-specific circumstances and avoiding pro-cyclicality to the extent possible, and stand ready to coordinate policies in the Eurogroup. Improve the effectiveness of national fiscal frameworks and the quality of public finances and adopt growth-friendly tax and other relevant budgetary measures that foster a sustainable economy. Support and implement EU actions to combat Aggressive Tax Planning and address a race to the bottom in corporate taxation.
EA recommendation 3 (Labour Market policy)	

<p>Main changes:</p> <ul style="list-style-type: none"> • Convergence on fair working conditions • Digital and green labour market transition • Promote participation in labour market (particularly women) • Shift taxes away, particularly for low-income and second earners • Enhance the effectiveness of social dialogue and promote collective bargaining 	
<p>Shift taxes away from labour and strengthen education and training systems and investment in skills. Improve the effectiveness of active labour market policies that support successful labour market transitions. Promote the creation of quality jobs and address labour market segmentation. Ensure adequate and sustainable social protection systems across the euro area.</p>	<p>Strengthen education and training systems and investment in skills. Increase the effectiveness of active labour market policies that support labour market integration and successful labour market transitions, including to more digital and green jobs. Promote participation in the labour market, including that of women, and shift taxes away from labour, in particular for low-income and second earners. Foster quality job creation, fair working conditions and address labour market segmentation. Improve access to adequate and sustainable social protection systems. Enhance the effectiveness of social dialogue and promote collective bargaining.</p>
<p>EA recommendation 4 (Banking Union policy)</p>	
<p>Main changes:</p> <ul style="list-style-type: none"> • Start negotiations on EDIS, improving crisis management • Reinforcing supervision • Improving anti-money laundering rules 	
<p>Make the backstop for the SRF operational and anticipate this, provided sufficient progress has been made in risk reduction. Pursue work on the EDIS, in particular by setting up a high-level working group. Strengthen the European regulatory and supervisory framework. Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution. Promote orderly deleveraging of large stocks of private debt. Continue to swiftly reduce the level of non-performing loans in the euro area and prevent the build-up of such loans, including by removing debt bias in taxation. Make ambitious progress on the Capital Markets Union.</p>	<p>Complete the Banking Union by starting political negotiations on the European Deposit Insurance Scheme, taking steps to improve crisis management and making provisions for liquidity in resolution and the backstop for the Single Resolution Fund operational. Strengthen the European regulatory and supervisory framework, including by reinforcing the supervision and enforcement of anti-money laundering rules. Promote orderly deleveraging of large stocks of private debt including by removing debt bias in taxation. Continue to enable the swift reduction of the level of nonperforming loans by banks in the euro area and prevent their build up. Renew efforts to complete the Capital Markets Union.</p>
<p>EA recommendation 5 (EMU policy)</p>	
<p>Main changes:</p> <ul style="list-style-type: none"> • Project EU economic interest globally • Ensure the accountability of the EMU 	
<p>Make <i>swift progress</i> on deepening the EMU, building on the statement of the Euro Summit of 14 December 2018, also with a view to strengthening the international role of the euro, taking into account the proposals of the Commission and the initiatives of Member States, while fully respecting the Union's internal market and in an</p>	<p>Make <i>ambitious progress</i> on deepening the Economic and Monetary Union, delivering swiftly on the actions identified in the Statement of the Euro Summit of December 2019 and advancing on all other aspects with the perspective to strengthen the international role of the euro and to project Europe's economic interests globally. Deepen the Economic and Monetary Union</p>

open and transparent manner vis-à-vis non-euro-area Member States.	and enhance its democratic accountability while fully respecting the Union's internal market and in an open and transparent manner towards non-euro area Member States.
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Source: EGOV, based on the 2019 and the 2020 euro area recommendations

Annex 6: Budgetary instrument for convergence and competitiveness

The agreed [BICC term sheet](#) details the (1) governance; (2) financing, (3) allocation and modulation. Previously, in [June](#), the Eurogroup had already agreed on general principles, key features, financing and governance. The relevant details are depicted below.

(1) Governance: governance of the instrument will rest with the Euro Summit and EG (as already decided in June) and key principles will be reflected in a draft Regulation under [Art. 136 of the TFEU](#). The process will start by a discussion on strategic priorities by the Euro Summit and Eurogroup and will result in a strengthened Euro Area Recommendation (EAR) including priorities relevant to the BICC, to be issued in the context of the European Semester and revised annually (as explained in the June term sheet). Member States would submit proposals ("*duly substantiated reform and investment proposals*", as indicated in the June term sheet) for financing in spring, which should as a rule consist of packages of reforms and investments, linked to the National Reform Programmes and compatible with the national budgetary process. Such proposals should cover the estimation of costs of investment and of structural reforms, and their justification, as well as the timeline for implementation (with milestones and targets). Such proposals would be analysed by the relevant (EG) preparatory committees and, if warranted, of the Eurogroup based on Commission initial feedback based on transparent criteria. The use of the facility is subject to approval by the Commission, taking into account the strategic priorities included in the EAR and the previous year's Country Specific Recommendations. Member States' access to financing will depend on the implementation of structural reforms and investments, the respect of the applicable macro-economic conditionality foreseen in the Common Provisions Regulation and respect of horizontal rules applying to the implementation of the EU budget (where the instrument will be framed). Being entrenched in the EU budget, the BICC will be subject to Commission implementation and to the European Parliament discharge. The European Court of Auditors will scrutinise the instrument. Eurogroup commits to ensure the participation of ERM II Member States in meetings and to take their views into account to the largest extent possible.

(2) Financing

The size of the instrument will be defined in the context of the Multiannual Financial Framework (MFF), taking into account the euro area share of the financial envelope of the Reform Delivery Tool, as in the Commission original MFF proposal. On the basis of [Article 175 TFEU](#), an enabling clause* will be included in the Regulation to allow Member States to negotiate among themselves an Intergovernmental Agreement (IGA) to permit adding other funds to the facility. The Eurogroup Working Group will continue working on a report on the need, the content, modalities and the size of an IGA in due time to allow for a final decision in the context of the MFF. The [Finnish Presidency negotiating box on MFF](#) foresees EUR 12 903 million for BICC. Member States will receive financing in instalments, subject to complying with the agreed milestones and will report regularly on implementation of investments and reforms. Payments may be suspended or cancelled in case of unsatisfactory compliance. Support from the instrument will be delivered in the form of grants (direct financial contributions from the EU budget), as foreseen in the June term sheet.

(3) Allocation and modulation

For at least 80% of the funds, the allocation key of the funds will be based on population and inverse of GDP per capita, with a 70% floor. Up to 20% of the funds could be used on a more flexible basis to react to country specific challenges, by supporting packages of reforms and investments that are especially ambitious as measured against the euro area priorities. The instrument will require a national co-financing rate of 25% that can be modulated on the basis of a trigger related to severe economic circumstances, as defined in the SGP, to be applied in a transparent and predictable manner by the Commission following a discussion in the Eurogroup. The modalities will be defined in the context of the legislative process, following further discussions in the Eurogroup. When warranted, based on the trigger, national co-financing rate should be reduced to half.

Appropriate arrangements are still to be defined for non-euro area Member States not participating in the BICC. These arrangements should take the form of a dedicated instrument or a financial arrangement to

address their full financial liability in relation to the BICC, depending on the circumstances of each Member State*, and should be reflected in MFF discussions.

* Such enabling clause aims to authorise additional contributions by Member States to the budget of the Union and earmark them to finance expenditure arising from the BICC, as explained in a [note](#) by the Council Legal Services

** Sweden and Denmark are expected to decide on the latter option subject to decision in the national Parliaments

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