IN-DEPTH ANALYSIS

Recommendations on the economic policy of the euro area under the European Semester - January 2019

This note presents information on the Eurogroup's policy actions in relation to the 2018 euro area recommendations and provides an overview of the recommendations addressed to the euro area as a whole under the European Semester for 2019.

Summary

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

The Council and the Commission are expected to monitor the implementation of the euro area recommendations, while the European Parliament scrutinises the European Semester, in particular by means of Economic Dialogues and contributes to the whole process via its resolutions.

Over the 2011-2018 European Semester cycles, the overall picture emerging from the assessment provided by the Commission is that the speed and degree of progress made in implementing the euro area recommendations have been significantly linked to the urgency of policy actions (e.g. set up of the Banking Union, progress achieved in correcting macroeconomic imbalances). Overall, a comparison between 2018 and 2019 euro area recommendations shows that there is no considerable difference in terms of suggested policies, even if the requests to deepening the EMU and a peculiar focus on high-debt countries (to exploit the economic momentum to build up fiscal buffers) are more emphasised than in the past.

Under the 2019 European Semester, the Commission issued its proposals for euro area recommendations on 21 November 2018. They will be discussed at the appropriate Council's formations, in view of their endorsement by the European Council at its meeting in March 2019, as foreseen in the Council roadmap.

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I. Implementation of euro area recommendations

1.1 Institutional perspective

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

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

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

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 European Semester, in particular by means of Economic Dialogues. It also contributes to the whole process via its resolutions, for example, on the European Semester for economic policy coordination (e.g. on the Annual Growth Survey and on the Euro Area developments). Moreover, the ECON Committee regularly requests external research papers on various topical issues (e.g. on how to improve the European Semester, how to measure and improve convergence in EMU, and most recently on the role of public debt sustainability assessments).

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

1.2 Implementation of the 2018 euro area recommendations

The EAR for 2018 were 5 and focused on:

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

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

[2] On 3 December, the Eurogroup adopted its work programme for the first half of 2019. See point III below for further analysis.

The table in the Annex summarises the Eurogroup discussions and policy actions aimed at implementing the 2018 EARs. It can be noted that:

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

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

Box 1: Eurogroup's work programme for the second half of 2018

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

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

Whilst most of the programme address areas similar to those reflected in the Euro Area recommendations, there are very few details on how the Member States within the Eurogroup intend to implement the mandate given by the Council to "take action (...) individually and collectively" in relation to the recommendations. The letter outlining the Eurogroup work programme nevertheless mentions that the euro area recommendations are taken into account when drafting the programme.

1.3 Focus on the 2018 recommendations on the deepening of EMU

Deepening of the EMU and monitoring the Banking Union progress have been the frontrunner topics in the policy discussions at Eurogroup level over the past months. Accordingly, in January 2018, the Eurogroup agreed on focusing discussions on two priority areas: the completion of the Banking Union (in adherence to the Council 2016 roadmap, 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 Eurogroup concluded that sequencing and holding discussions in a stable and inclusive format would be essential for bringing all views on board. Since then, the Eurogroup has advanced discussions on both issues, in both restricted and inclusive format[3], throughout almost all meetings in 2018 (22 January, 19

[3] The Eurogroup in inclusive format includes the Member States that do not have the euro as their currency.

February, 12 March, 24 May, 21 June, 12 July, 7 September, 1 October, 5 November, 19 November, and 3 December). Some Member States provided input to these discussions as set out in the box 2 below.

Box 2: The Meseberg and the Henseatic Declarations

On June 19, **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 CACs with single limb aggregation[1]", with the ESM mediating between the sovereign and its creditors. Regarding the Banking Union, they support further steps in reducing and sharing risk in the financial sector, in the appropriate sequence. France and Germany confirmed their pledge to make decisive progress towards a Capital Markets Union. The two Member States complemented their proposals on the 19 November (see below).

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

The Eurogroup meeting held on 19 November defined the key deliverables in view of the pivotal upcoming December meeting. Updates were given on the current negotiations with the European Parliament of the banking package, as well as restating the joint commitment by the ECB, the Single Resolution Board and the Commission in promoting measures for enhanced risk sharing which are essential to achieve more risk reduction in the banking sector. A report on risk reduction indicators was also put forward and discussed. On bank resolution, legal and financial conditions allowing the entry in force of the common backstop before 2024 have been discussed. Also, the terms for the future relationship between the Commission and

Box 3: France-German joint statement of 19 November

The France-Germany joint statement of 19 November 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 growth enhancing reform implementation, "co-financing growth enhancing public expenditures such as investments, research and development, innovation and human capital"; **(c)** would be voted by all 27 member states as part of the Union budget; **(d)** be based 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) and European resources (reform delivery tool) 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 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 to be negotiated in the context of the MFF. The statement does not mention an overall size for the Euro Area budget, leaving that to be defined through inter-governmental agreements.

the ESM (considering its upgrade of role and functions) have been successfully laid out, especially regarding the cooperation in implementing rescue and financial assistance programmes. The discussion then shifted to the evaluation of the joint statement by France and Germany (see box 3 below) on the setting up of a euro area budget as an instrument to promote competitiveness, convergence and stabilisation.
The 3 December, Eurogroup delivered political agreement on a ''*comprehensive plan to strengthen the Euro*'', that materialised in a report to the Euro Leaders meeting on 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 (see box 4 below on the Euro Summit conclusions). No agreement was reached regarding a stabilisation function (including an investment and an unemployment insurance scheme) and technical discussions will continue.

The report outlined the main conclusions:

- It further shapes Ministers' commitment to establishing a High Level Group to continue technical work on the European Insurance Deposit Scheme (EDIS), an agreement on which failed to be achieved, with a report on next steps expected by June 2019.
- There will be an additional report by June as well on further work on liquidity provision in resolution, with input from the relevant institutions.
- Lastly, the report mentions discussions on an instrument for competiveness, convergence and stabilisation of the euro area. Ministers agreed that, subject to a mandate by Euro Leaders, further work on the design, implementation and timing for an instrument for convergence and competitiveness could proceed, bearing in mind the Franco-German proposals.

Ministers expect to be able to put forward ESM Treaty amendments by June 2019 as well.

The ESM term sheet summarises the contours of the backstop to the SRF (further detailed in the terms of reference). Of most relevance, one can mention (a) the backstop will take the form of a revolving credit line, with a nominal cap to be set by the Board of Governors of ESM but adjustable by the Board of Directors, and aligned with the size of the SRB by end 2023; (b) backstop to be available for all current possible uses of the SRF; (c) non-euro area member states participating with equal rights and obligations; (d) the loans under the credit line would have a maturity of 3 years and a pricing of 35bp with a step up of 15bp after 3 years. The governance arrangements foresee a special committee to deal with backstop usage and disbursements decided by the Board of Directors within 12 hours (extendable to 24) after request. All decisions will be subject to national constitutional requirements and taken in accordance with a set of criteria including the availability of funds, assessment of the repayment capacity, fiscal neutrality, no defaults, and permanence of BRRD rules as detailed in the Intergovernmental Agreement on the use of the SRF (which include, inter alia, the principles of bail in). The term sheet conditions early introduction of the backstop to sufficient progress in risk reduction by 2020 to be assessed with the aim of 5% of gross NPLs and 2,5% net NPL on all banks in the BU, and on adequate build-up of bailinable liabilities. The term sheet also covers the ESM toolkit, detailing the conditions of the precautionary conditioned credit line (PCCL). It will be available for Member States with sound fundamentals (assessed on the basis of compliance with the debt benchmark, a minimum benchmark and a deficit below 3%, not being in EDP nor experiencing excessive imbalances) underpinned by a specific commitment to continuously adhere to these. The Member State debt must be sustainable and its repayment capacity assessed. If requested by the Member State, the ESM may facilitate agreement with creditors (on a voluntary, informal, non-binding, temporary and confidential basis). The facility will be agreed by the Board of Governors. In addition, on the front of debt sustainability, single-limb CACs are scheduled to enter in force within the next 3 years.

Box 4: Conclusions of the Euro Summit of December 2018

The Euro Summit held on the 14 of December 2018 endorsed all the elements of the Eurogroup report to Leaders on EMU deepening. Leaders, in particular:

- Endorsed the terms of reference of the common backstop to the Single Resolution Fund (SRF) and the term sheet on the European Stability Mechanism (ESM) reform and mandated the Eurogroup to prepare amendments to the ESM Treaty (including the common backstop to the SRF) by June 2019;
- Called to advance work on the Banking Union and for ambitious progress by Spring 2019 on the Capital Markets Union, whilst looking forward to the final adoption of the Banking Package and the non-performing loans (NPL) Prudential Backstop;
- Mandated the Eurogroup, in the context of the Multiannual Financial Framework (MFF), 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. Leaders further decided the instrument should be part of the EU budget, coherent with other EU policies, and subject to criteria and strategic guidance from the euro area Member States (size to be determined in the context of the MFF, features to be agreed in June 2019) and 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;

Leaders also took note of the communication of the Commission on a stronger international role of the euro and encouraged work to be taken forward to this end.

II. The 2019 Euro Area recommendations

The proposal for 2019 euro area recommendations were adopted by the Commission on 21 November 2018. They will now be discussed at the appropriate committees for adoption by 21-22 January 2019 Eurogroup and Ecofin and endorsement by the 21-22 March 2019 European Council meetings in accordance with the Council roadmap for the 2019 European Semester.

The Eurogroup has also adopted its work programme for the first half of 2019 on the 3 December, including a reference to the EAR (see box 5 below).

In line with the 2018 EAR, the 2019 Commission's draft recommendations covers four key policy areas, namely: (1) implementing structural reforms (supporting investment and boosting productivity); (2) rebuilding fiscal buffers and improving quality of public finances; (3) completion of the Banking Union and further developing the Capital Markets Union; and finally (4) making progress on completing the EMU. While these priorities were also embodied in the previous cycle, emphasis placed on some of the elements that were maintained has somehow changed, as shown in Table 2 below. In this sense, yet akin to the 2018 policy framework, the 2019 recommendations are shorter and more sharply focused on the areas the Commission envisages as priority and high on the past months agenda, like reinforcing the monetary union and addressing the EDP's public finances shortcomings.

One can note from the recitals accompanying Commission's proposals that the Commission is envisaging (a) reinforcing the successful rebalancing of the euro area by an appropriate deleveraging pace, supportive growth and reforms to increase productivity; (b) appropriately differentiated fiscal policies and focus on structural reforms to underpin the gradual normalisation of monetary policy; (c) differentiated national fiscal policies, properly coordinated, aiming at strengthening the overall fiscal sustainability of the euro area; (d) as such, reinforcing the build-up of fiscal buffers for Member States with high levels of public debt whilst member states with fiscal space would contribute by increasing public investment.

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

Please see annex 2 for a broad comparison of the 2018 and 2019 euro area recommendations.

Box 5: 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 Eurogroup 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 Eurogroup will 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.

III. 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;
- The Commission is using the recitals to the recommendations as an instrument to further detail and contextualise the recommendations. The recitals sometimes provide useful information in clarifying what the Commission is aiming at with the specific recommendations;
- Irrespective of the number of recommendations, **four broad policy areas have been covered over the period 2011-2019,** namely *structural*, *fiscal*, *financial* and *institutional* issues. During the 2014 and 2015 cycles, the dynamic underpinning the EA recommendations 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 substance over the fiscal/budgetary dimension and the most recent recommendations have been given 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 also evolved. 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. As from the 2017 European Semester, the Commission reverted to its original approach based on qualitative assessment without categorising progress made in the policy areas concerned. The overall picture that emerges from these assessments is that **the speed and degree of progress made in a given policy area have been strongly linked to the urgency of policy action** (e.g. set up of the Banking Union, progress achieved in correcting macroeconomic imbalances). Table 1 below provides a schematic overview of the Commission's assessments.

Table 1: Implementation of euro area recommendations

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

Source: EGOV based on the Commission Staff Working Documents (SWDs).
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's policy actions as regards implementation of the 2018 euro area recommendations

2018 Council Recommendations	Policy actions taken by the Eurogroup (based on publicly available information)
Structural reforms	
1. Pursue policies that support sustainable and inclusive growth and improve resilience, rebalancing and convergence. Make significant progress towards completing the Single Market, particularly in services, including financial, digital, energy and transport, by, inter alia, implementing relevant product market reforms at national level. Given the positive cyclical conditions, all Member States should prioritise reforms that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce inequality. Member States with current-account deficits or high external debt should, in addition, aim at containing growth in unit labour costs and seek to improve their competitiveness. Member States with large current-account surpluses should, in addition, create the conditions to promote wage growth in a manner that respects the role of social partners and implement as a priority measures that foster investment and support domestic demand and growth potential, thereby also facilitating rebalancing.	On 21 June 2018 the EG adopted the policy priorities for the second half of 2018: "the Eurogroup will maintain its attention on policies geared at strengthening longer-term growth and employment prospects." In a remark following the June meeting, Mr. Centeno commented on the discussions on possible fiscal instruments for convergence and stabilisation of the EMU. "Finally, it is clear that our discussions are less advanced on possible fiscal instruments for convergence and stabilisation in the EMU. Subject to guidance by leaders next week, possible avenues to be explored could be a euro area budget for competitiveness, convergence and stabilisation purposes. We could also examine a European unemployment insurance fund for cases of severe economic crises." On 7 September 2018 the EG held a thematic discussion on efficient allocation in labour and product markets in the euro area. In his summing-up letter following the meeting, the EGP stressed that there was a need for reforms enhancing allocative efficiency in EMU, given the linkages with economic resilience. A preparatory note by the Commission stressed the impact of macro-level allocative efficiency on economic resilience, and noted that there are large differences across Member States. The note proposes policies aimed at upskilling/reskilling the work force, improving public sector efficiency and the business environment, and foster modern welfare states that ensure efficient and inclusive social policies to support the process of change. A presentation by Nobel Prize winner Christopher Pissarides on the impact of digitalisation and artificial intelligence on labour markets addressed a number of measures that could lead to efficiency gains in the Euro Area. These included eliminating waste, such as red tape and overemployment at efficient firms, increasing worker mobility between less efficient firms or sectors to more productive firms/sectors, as well as more widespread public sector adoption of digital technology. Commissioner Pierre Moscovici mentioned the increasing use of robots and artificial intelligence as one of the most important challenges for the working world in the coming years.

Public finances	
2. Deliver the planned broadly neutral overall fiscal stance for the euro area, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances, in particular where debt ratios are high, and supporting the economy, while fully respecting the Stability and Growth Pact and taking into account fiscal space and spillovers across Member States. Use the improving economic conditions to rebuild fiscal buffers, while continuing to strengthen economic growth potential. Ensure the effective functioning of national fiscal frameworks. Pursue policies which support investment and improve the quality and composition of public finances, including by making use of spending reviews and adopting growth-friendly and fair tax structures. Take and implement measures to reduce debt bias in taxation and fight aggressive tax-planning to ensure a level playing field, ensure that taxpayers are treated fairly and safeguard public finances and stability within the euro area. This includes continuing work on the CCCTB.	On 22 January 2018 Ministers discussed the 2018 euro area recommendations proposed by the Commission and the Euro area Article IV IFM preliminary conclusions. As set out in the summing up letter, Ministers took note of the IMF preliminary conclusions and recommendations (avoid complacency and use these good economic times to build fiscal buffers, accommodative monetary policy until inflation has durably converged to the ECB's inflation aim, maintaining the risk reduction momentum and take advantage of the economic expansion to undertake structural reforms). The Fund also welcomed the debate on deepening the EMU, highlighting the completion of the Banking Union as the priority, while also emphasising the case for a central fiscal capacity, conditional on improved compliance with the fiscal rules. In what concerns the 2018 EA recommendations, Ministers concurred on the text, as prepared by the EWG, in view of the approval at the ECOFIN Council on 23 January. On 24 May 2018 Ministers discussed the economic situation in the EA on the basis of the Commission Spring forecast, and spending reviews, on the basis of a Commission technical note and as a follow up to previous discussions in the June 2017 and September 2016 meetings. As to spending reviews, previous discussions identified 5 areas where these still pose challenges: i) fostering ownership by the administration under review; ii) designing detailed reform options and implementation roadmaps; iii) using operational checks, pilots and analyses of the outcome for the end-user; iv) adequate resources; and v) ex-post evaluation. EG discussed the first of these areas and concluded that expenditure reviews are growingly focusing on allocative efficiency or prioritisation of expenditure and that strong political commitment at a high political level is a key condition for the success of the exercise. Irish and Spanish Finance Ministers shared their experiences with recent spending reviews. The EG also decided to update a previous survey of MS experiences to deepen the debate in 2019. On 21 June 2018 the EG discussed an updated draft budgetary plan of Spain for 2018, on the basis of a Commission Opinion issued on 23 May 2018 and agreed that it was broadly compliant with the SGP rules. The EG was also informed on the government's priorities, as well as those of Italy. In particular, Ministers outlined in the statement referring to Spain their previous concerns regarding limited buildup of buffers in some Member States and the persistence of legacy problems. On the 12 July 2018 EG discussed the economic situation and outlook for the euro area on the basis of the Commission interim 2018 forecast as well as the budgetary situation in the euro area. On the basis of a Commission presentation, the Eurogroup President (EGP) concluded that he remained cautiously optimistic that the euro area economy will continue to expand at a steady pace, bearing in mind the risks skewed to the downside and which leave no room for complacency in EG policies. The Chairman of the European Fiscal Board (EFB) was invited to the meeting and presented the EFB's report on the Euro Area stance. He considered that the current expansion offered a clear opportunity to create fiscal buffers and prepare public finances for the future and that, overall, the current outlook

	warranted a somewhat restrictive fiscal stance for the euro area in 2019. The summing up letter points out that Ministers' discussions focused on the need for differentiated fiscal efforts depending on the country circumstances, on methodological improvements to the measurement of output gaps, on the composition of public expenditures and a strengthening of fiscal governance. EGP concluded that, "given the uncertainties and risks to the economic outlook, and in view of the preparation of draft budgetary plans, it is important for us to adopt credible policies that properly reflect each country's specific circumstances. Rebuilding fiscal buffers remains a priority for Member States with high debt levels. Member States having outperformed their medium term budgetary objectives could use their favorable budgetary situation to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.", further contributing to defining the fiscal stance for 2019. On the 1 October 2018 the EG discussed national automatic stabilisers (NAS) on the basis of a Commission presentation and Member States' experiences. The discussion was also framed around the deepening of Economic Governance and NAS were presented as an instrument to reinforce EA crisis related preventive and defensive instruments (both Commissioner Moscovici and Klaus Regling pointed in this direction in the press conference). The Commission's analysis shows the effectiveness of NAS (about a third of economic shocks absorbed, as stated by Commissioner Moscovici) but also the still large differences amongst Member States, with AT framework being the most efficient and BG the least efficient in absorbing shocks. The Commissioner recognised the importance of these discussions in the context of reinforcing the Euro Area. As pointed out in the EG summing up letter, Ministers agreed that automatic stabilisers are particularly important within a monetary union insofar members lose monetary policy instruments that could assist in crisis situations. Ministers agreed that automatic stabilisers work best in conjunction with buffers created during good times and discussed how national policies can be designed and how to better enhance NAS functioning. When these are not enough to counter shocks, a point also raised in the preparatory note put forward to Ministers, some made the link to the discussions on stabilisation tools at central level. Some Member States suggested the Commission could usefully examine the interaction between national rainy-day funds and the rules of the Stability and Growth Pact. Commissioner Moscovici pointed out in particular three issues: that national frameworks can be designed to enhance effectiveness of the NAS; that Member States need to build fiscal buffers to increase the efficiency of NAS and that a central stabilisation mechanism (based on earlier Commission' proposals) is necessary to complement the EA in particular when facing external shocks. On the 5 November 2018 EG had a first discussion on draft budgetary plans and in particular the Italian DBP. Ministers urged Italy to present a DBP in line with SGP rules. Ministers also discussed financial stability in the euro area, on the basis of a presentation by Professor Jean Tirole. Professor Tirole touched upon shadow banking, fragmentation, the remaining sovereign-bank nexus, the rise of crypto-currencies and how to exit from the current

	low interest rate environment. The Eurogroup agreed that more needs to be done to tackle such challenges.
Labour market and social policies	
3. Implement reforms that promote the creation of quality jobs, equal opportunities, access to the labour market and fair working conditions, and support social protection and inclusion. Reforms should aim at: (i) reliable labour contracts that provide flexibility and security for employees and employers, combined with adequate support during transitions, while avoiding labour-market segmentation; (ii) quality, efficient and inclusive lifelong education and training systems that aim to match skills with labour-market needs; (iii) effective active labour-market policies that foster labour-market participation; (iv) sustainable and adequate social protection systems that contribute to social inclusion and labour-market integration throughout the life cycle and are responsive to new types of employment and employment relationships; (v) smooth labour mobility across jobs, sectors and locations; (vi) effective social dialogue and wage bargaining at the appropriate level according to national specificities; (vii) shifting taxes away from labour, particularly for low-income earners and second earners.	On 27 April 2018, as part of thematic discussion with a focus on increasing resilience in the EMU, the EG held a discussion on wage dynamics, with focus on the determinants of wage growth and the room for policy action in the face of increasing globalisation and digitalisation of labour markets. In a summing-up letter of the meeting, EGP stated "*Despite economic expansion under way, wage growth remains sluggish in most Euro Area member states*". In a preparatory note, the Commission writes "The 2018 Council recommendation to the euro area stresses that wage growth contributes to the economic recovery by supporting aggregate demand, reduces inequalities and ensures high standards of living in the euro area. It also states that efficient wage setting mechanisms should ensure that wages are differentiated depending on country specific conditions and taking due account of changes in productivity". As main policy instruments, the Commission suggests minimum wages, institutional collective bargaining frameworks, public sector wage setting, tax and benefit policies, as well as other structural reforms in product and labour markets (among others aimed at reducing labour market segmentation, impacting mark-ups, and increase productivity and investment in human capital, research and innovation). In his presentation professor Tito Boeri, president of the Italian Social Security Institute and professor at Bocconi University, outlined a few key issues on the topic: Underemployment and market segmentation in the Euro Area following the financial crisis, the significance of risk aversion of workers, and monopolistic powers of employers. The EGP concluded in a press briefing "*Wages are an important variable for macroeconomic adjustment in the monetary union. The issue has a strong national and in some cases sectoral dimension and the role of the social partners in wage setting is fully acknowledged. Moreover wage developments take place in a context that is affected by globalisation and technological change. Nevertheless, there is a range of possible supporting policies to help bringing wages and productivity developments more in line. These include reforms to reduce segmentation of labour markets, promote mobility and to take into account technological progress and digitalisation of the economy. We will continue our exchanges on labour market issues at our meeting in June.*" On 21 June 2018 the Eurogroup adopted the policy priorities for the second half of 2018 (the Eurogroup work programme). The document states "the Eurogroup will maintain its attention on policies geared at

	strengthening longer-term growth and employment prospects." In a remark following the June meeting, Mr. Centeno commented on the discussions on possible fiscal instruments for convergence and stabilisation of the EMU. "*Finally, (....) We could also examine a European unemployment insurance fund for cases of severe economic crises.*" On 7 September 2018 the Eurogroup held a thematic discussion on allocative efficiency in labour and product markets in the euro area. In his summing-up letter following the meeting, the Eurogroup president stressed that there was a need for reforms enhancing allocative efficiency in EMU given the linkages with economic resilience. A preparatory note by the commission stressed the impact of macro-level allocative efficiency on economic resilience, and noted that there are large differences across member states. The note proposes policies aimed at upskilling/reskilling the work force, improving public sector efficiency and the business environment, and foster modern welfare states that ensure efficient and inclusive social policies to support the process of change.
Financial sector	
4. In line with the Roadmap of June 2016, continue work to complete the Banking Union with regard to risk reduction and risk sharing, including a European deposit insurance scheme and making the common backstop for the Single Resolution Fund operational as agreed. Further strengthen the European regulatory and supervisory framework to prevent the accumulation of risks. Take measures to tangibly accelerate reduction of the levels of NPLs on the basis of the Action Plan of July 2017 and promote orderly deleveraging in Member States with large stocks of private debt. Further develop the Capital Markets Union to support growth in the real economy, while safeguarding financial market stability.	(See also conclusions of 19 February, under Recommendation 5). The outcome of the EG meeting on 27 April 2018 with ECB/SSM and SRB's representatives positively highlighted the resilience gained by the EU banking sector over the last year while aiming at a lasting risk-reduction process. However, it was made clear that some legacy issues do persist to exist within banks' balance sheets especially regarding NPLs, for which an enduring work in reducing bad loans is needed towards the prevention of further potential legacy problems for banks. SSM and SRB reported to Ministers on the results of the recent EU wide stress test and also on the key supervisory challenges and priorities for 2019. EBC/SSM further highlighted its qualitative Guidance of March 2017 on NPLs, supervisory dialogues and the Addendum to ECB guidance on NPLs, specifying supervisory expectations for the prudential provisioning of new NPLs. The SSM will continue to closely monitor the banks' relocation plans and ensure that banks are adequately prepared for Brexit. Ministers also discussed Anti-Money laundering issues, and will continue discussions on technical level on how to strengthen coordination between supervisors. On June 21 2018 terms were laid out for an overall agreement on the banking package and mechanisms promoting substantial risk reduction and risk-sharing. Broad consensus was shown towards the entrustment of the common backstop (for bank resolution) to the ESM which could become available before 2024, hence setting up a credible safety net for banking sector. In addition, the EG agreed on the reinforcement of the ESM through strengthening its commitment in financial assistance acting as a lender, the role in designing programmes as well monitoring debt sustainability. In this sense, by December 2018 the EG will deliver a comprehensive document outlining the key features regarding the mentioned ESM reform. Also, the EG concurred on formulating a roadmap kicking off the discussion on the set up of the EDIS at a political level. In the 7 September and 1 October meetings the EG followed-up many topics already discussed in the previous seats, emphasising the progress already achieved in risk reduction field and reiterating the work needed to

	lay out a roadmap for the beginning of political discussion of EDIS. Yet it is acknowledged that game changing decisions on a comprehensive package of reforms will be taken in the December EG meeting. Despite marking key progress towards an advancement of the Banking Union, the Eurogroup held on December 3 did not provide an agreement on the EDIS in terms of design and timing. The start of political discussions is not yet scheduled and a high-level group on the topic will report to the Eurogroup in June 2019. Furthermore, the common backstop to SRF is set to be effective earlier than 2024, provided major actions in risk reduction will be undertake by 2020. In addition, the ministers agreed on introducing single-limb CACs by 2022.
EMU Institutional reforms	
5. Make swift progress on completing the EMU, taking into account the Commission initiatives launched in autumn 2017, while fully respecting the Union's internal market and in an open and transparent manner towards non-euro-area Member States.	On 22 January 2018 Ministers discussed the deepening of the EMU and agreed that the work of the Eurogroup should primarily focus on the two priority areas identified by leaders, namely the completion of the Banking Union and the reform of the ESM. On the former, the ECOFIN Council roadmap of June 2016 should be adhered to and eventually further developed, notably by adding more precision as regards the specific steps that need to be taken in terms of risk reduction and risk sharing, whilst taking stock of the developments already registered in these dimensions. As regards the ESM reform, Ministers decided to focus as a matter of priority on issues related to its functions. Some Ministers also argued in favour of exploring other issues – such as fiscal capacity and improved fiscal rules – in order to reach a comprehensive political decision by June 2018 (and mandated the EWG to work on those). Ministers emphasised that sequencing will be essential as well as holding discussions in a stable and inclusive format as much as possible. On 19 February 2018 Ministers discussed the reforms of the ESM in the context of the proposals for deepening of the EMU. Ministers agreed, as detailed in the summing up letter, to work on all relevant issues, covering the possible role of the ESM as backstop provider to the Single Resolution Fund, the role of the ESM in programmes and crisis management and its implications, debt sustainability issues and the review of instruments and gave a broad mandate to the Eurogroup Working Group to freely discuss. The Commission and the ESM should also be involved and come forward with common positions. Legal issues related to the constitutional set-up of the ESM as well as governance issues should be left for later. In inclusive format, EG agreed with the information put forward by the ECB/SSM, Commission, ESM and SRB that important progress has been made in risk reduction but recognised that there is scope for further improvement, therefore, asked for a comprehensive assessment of progress achieved. In that context, Ministers concurred that some indicators are probably relatively straightforward while others are more controversial. EWG and the EFC were mandated to pursue the preparatory work needed. Ministers also concurred to continue technical work on risk sharing, notably on EDIS and on the backstop to the Single Resolution Fund. Klaus Regling pointed out that ESM and Commission are working on an agreement to further detail their working relationship. On 12 March 2018 the EG prepared the March Euro Summit. The summing up letter refers that Ministers concluded that work should cover four issues:

	the possible role of the ESM as backstop provider to the Single Resolution Fund, the review of instruments, the role of the ESM in programmes and crisis management and its implications, and debt sustainability issues. Ministers confirmed overall support for making the ESM the backstop provider for the Single Resolution Fund, but less progress on the other issues. On the banking union, and meeting in inclusive format, Ministers concluded no new measures should be added to the roadmap agreed in 2016 and that technical work on risk sharing, notably on EDIS and on the backstop to the Single Resolution Fund, should continue. Different views were expressed on fiscal issues. Ministers focused the discussion on a possible central stabilisation function, although different views were presented, leaving to the budget debate issues such as convergence or promotion of structural reforms. On 24 May 2018 Ministers took stock of the work done so far in deepening the EMU. The summing up letter reflects that Ministers broadly support work already done in identifying the indicators and the sequencing of the deliverables in terms of risk reduction and risk sharing, with first decisions to be taken in June. Ministers underlined that a compromise on the Banking Package is an important step in further reducing risks in the Banking Union and would help to pave the way for advancing political decisions on risk sharing measures, including on the ESM becoming the backstop to the Single Resolution Fund (SRF). A specific report on risk reduction would be prepared for furthering the discussions. As to the ESM, Ministers confirmed very broad support for making the ESM the backstop provider for the SRF and agreed to continue work on the ESM reform to enable a decision in June. Work will continue on the review of the ESM toolkit, on the main features of the common backstop, on the debt sustainability approach of the ESM, to see if there is scope to further clarify the ESM framework, taking into account the approach used by the IMF. European institutions will keep working on the future of their working arrangements in the context of programmes. On the 21 of June 2018 the EG prepared the Euro Summit taking place on the 28-29 of June. In particular, Ministers discussed, as expressed in the summing up letter, (a) the proposals put forward by Germany and France, (b) the possible elements of a landing zone prepared by the EWG, (c) indicators measuring progress with risk reduction and the way forward with the roadmap for risk reduction and risk sharing, (d) the future role of the ESM. Ministers decided that the EGP would report by letter, on a personal capacity, to the European Council President on the outcome of discussions. In its remarks at the press conference, EGP reported, in particular, that Ministers broadly support a gradual approach whereby risk reduction and risk sharing measures are taken in the appropriate sequence: (a) agreement on the banking package and indicators on risk reduction would allow agreeing the ESM as a backstop to the Single Resolution Fund (SRF); (b) the backstop could be available before the end of the transitional period (1 January 2024) insofar significant progress is made in risk reduction. Its size would be aligned with the target level of the SRF, doubling the current amount available for bank resolution;

	(b) after the European Council in 28-29 June, the work on a roadmap for beginning political discussions on EDIS could start. Ministers also agreed to act decisively on the Anti-Money Laundering front and on reinforcing the ESM in designing and monitoring financial assistance to Member States. Ministers decided additionally to review the existing ESM instruments, in particular the precautionary tools, and assess the need for new instruments. Ministers were divided on debt sustainability. On possible fiscal instruments for convergence and stabilisation of the EMU, EGP concluded that discussions are less advanced. Possible avenues to be explored could be a euro area budget for competitiveness, convergence and stabilisation purposes and a European unemployment insurance fund for cases of severe economic crises. Ministers were debriefed on the 12 July 2018 on the conclusions of the 29 June Euro Summit and discussed the mandate given by Leaders for a comprehensive set of proposals by December 2018. The summing up letter reflects that discussions showed broad agreement that priority should be given to the deepening of EMU. Ministers agreed that: (a) on Banking Union, the EG will work on a roadmap for beginning political discussions on the European Insurance Deposit Scheme, a possible framework for liquidity in resolution and measures to enhance the organisation of anti-money laundering, whilst monitoring progress with risk reduction and keeping track of agreements reached on banking legislation and its implementation; (b) The EG will prepare terms of reference of the common backstop to the SRF, including on its early introduction and possible changes to the Intergovernmental Agreement; (c) On the ESM reform, the EG will prepare a term-sheet outlining the key features of a reinforced ESM (review of the ESM toolkit, its precautionary instruments and possible new instruments; work on a stronger role of the ESM in programmes; debt sustainability issues and ESM governance); (d) On the euro area fiscal capacity, discussions should continue on the basis of the Commission's proposals within the MFF framework, and recent proposals on a possible euro area budget for competitiveness, convergence and stabilisation purposes and a European unemployment insurance fund. Ministers further agreed that the discussions would be held in inclusive format, when relevant. On the 7 September 2018 the EG discussed the follow up to the 29 June Euro Summit and the terms of reference of the backstop to the Single Resolution Fund (SRF). As referred to in the summing up letter, the EG has been mandated to work on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme, adhering to all elements of the 2016 roadmap in the appropriate sequence, prepare the terms of reference of the common backstop, agree on a term sheet for the development of the ESM by December 2018, and further discuss all the items mentioned in the EGP letter of 25 June to the President of the European Council. Ministers agreed that discussion should start on the common backstop for the SRF (agreeing on the conditions for a possible early introduction from January 2024 and the decision making - the ESM Board of Directors could swiftly

	take decisions on the use of the common backstop, respecting national prerogatives) and then proceed the ESM reform, its toolkit and role. On debt sustainability issues, Ministers agreed to review the progress with risk reduction, discuss the work that should start on a roadmap for beginning political discussions on EDIS, and will also discuss liquidity in resolution. Ministers agreed to discuss instruments for competitiveness, convergence and stabilisation purposes and on the sequencing of the various topics, bearing in mind the required political decision on a comprehensive package in the December 2018 Eurogroup. Commissioner Moscovici outlined the Commission's priorities (completing the Banking Union, backstop to the SRF and the European Deposit Insurance Scheme, reform of the ESM with a view to integration in the European framework and cooperation of Commission and ESM and the package of measures proposed alongside the MMF namely the European Mechanism Stabilisation Function and the reform of the Structural Reform Support Programme). In particular, he pointed to the Commissions' intention of creating a Euro Area budget to better fight inequalities and instil dynamism in the Euro Area. Benoit Coeure (ECB) considered the completion of the Banking Union of the "utmost prioriy" and welcomed in particular the agreement on the common backstop, the conditions of which he considered "within reach". He stressed the need for a swift and timely decision making by the backstop and for a clear timeline for discussions on EDIS coupled with the risk reduction agenda. He also mentioned the need to design a Euro Area fiscal capacity to provide macroeconomic support in case of wide recession and to complement monetary policy. Klaus Regling underlined the agenda and mandate given by the Euro Area Summit, which involved the ESM also in drafting new instruments that could go along the lines of "fiscal capacities" and on a new framework for cooperation with the Commission. On the 1 October 2018, EG discussed issues related to the precautionary instruments available to the ESM (namely, options to enhance its effectiveness, among others, effective ex-ante eligibility criteria to assess a Member State economic and financial performance), as well as its role in crisis management and prevention within the limits of the Treaties and respecting the Commission's mandate. The EG broadly agreed, as stated in the summing up letter, to enhance the effectiveness of precautionary tools, with an appropriate level of conditionality. Ministers confirmed that the precautionary credit line should be accessible by Member States with sound fundamentals, whilst further work (mandated to the Eurogroup Working Group) is needed on the eligibility criteria (including debt sustainability, to safeguard creditors' interests) and their interplay with the EU surveillance framework. There was broad support for a global assessment of the eligibility criteria, with quantitative thresholds judged necessary by some Ministers. In relation to the ESM, Ministers broadly support strengthening the ESM in its function as a lender, as set out in the summing up letter, without stigmatising the requesting Member State and with appropriate conditionality. Ministers agreed the ESM could be involved in some tasks linked to the provision of financial assistance, such as the assessment of financing needs and the debt Sustainability Analysis, avoiding overlaps with EU processes and Commission competences and the ECB–ESRB. The institutions were mandated to come up with a joint

	proposal for cooperation so that Ministers can approve by December a term sheet of conditions. Commissioner Moscovici highlighted in particular that Ministers recognised the prerogatives of the Commission in economic and fiscal surveillance should be preserved whilst avoiding overlaps. The Commission and ESM agree in 80% of the issues. Klaus Regling emphasised the importance of the precautionary credit line as a confidence enhancing instrument (bearing in mind the IMF experience so far with a similar instrument), mentioning also the importance of the conditionality to limit moral hazard. He mentioned that ESM has been using analytical tools in the context of their Early Warning System, programmes' work and market activities. He also noted that ESM Debt Sustainability Analysis aims at identifying risks without providing policy guidance. On the 5 November 2018 and 19 November Ministers continued discussions on a common backstop to bank resolution; ESM reform and EDIS. EG Pres pointed out that the EG is now closer to finalising the Terms of Reference of the backstop for bank resolution. Ministers agreed that the size of the backstop credit line will be aligned with the target level of the Single Resolution Fund, that the ESM Board of Directors will take decisions on a case-by-case basis, swiftly and with involvement of national parliaments whenever necessary. EG PRES noted that progress had been made as well as on the ESM precautionary instruments. The 3 December Eurogroup delivered a political agreement on a "comprehensive plan to strengthen the Euro" which would be reported to the 14 December Euro summit. The report following the meeting included the ESM-Commission cooperation terms, the common SRF backstop and the new role of the ESM. Breakthroughs have been accomplished on the long-lasting discussed topics of the ESM reform and terms of reference of the backstop to the SRF which is set, provided a sufficient progress in risk reduction is attained before 2020, to be implemented earlier than the originally foreseen date of 2024. On the other hand, a shared standpoint on the EDIS design failed to be achieved and further technical discussion will continue before agreeing on a roadmap for political discussions. Accordingly, a high-level group is to be established and is set to report the Eurogroup on the next steps within June 2019. In addition, on the front of debt sustainability, single-limb CACs are scheduled to enter in force within the next 3 years. The Euro group also reiterated the engagement, upon mandate of the Euro summit, on conduct further work shaping the Franco-German proposal of an architecture for the Euro-area budget prompting convergence and competitiveness.

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

Annex 2: A comparison of the 2018 and 2019 euro area recommendations

2018 Council Recommendations (21 March 2018)	2019 Draft Recommendations (Commission, 21 November 2018)
EA recommendation 1 (Structural policies: products and services markets)	
2019 EA recommendation 1 - Broadly unchanged emphasis but somehow less prescriptive policy indications	
2018 EAR 1: **Pursue policies that support sustainable and inclusive growth and improve *resilience*, rebalancing and convergence.** ***Make significant progress towards completing the Single Market*****,** particularly in services, including financial, digital, energy and transport, and by 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 additionally aim at ***containing growth in unit labour costs and seek to improve their competitiveness*****. Member States with large current account surpluses** should additionally ***create the conditions to promote wage growth*** **r**especting the role of social partners and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.	**2019 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**.
EA recommendation 2 (Fiscal policy)	
2019 EA Recommendation 2 - Broadly unchanged emphasis with new elements, such as a reference to: • Rebuilding fiscal buffers in ***euro area countries with high levels of public debt***	
2018 EAR 2 **Deliver the planned,** ***broadly neutral overall fiscal stance for the Euro Area*****, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances**, in particular where debt ratios are high, **and supporting the economy**, in full respect of the Stability and Growth Pact ***and taking into account fiscal space and spill overs 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. Member States should ***pursue policies which support investment and improve the quality and composition of public finances***, also by making use of spending reviews and adopting growth-friendly and fair tax structures. ***Member States should take and implement***	**2019 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.

measures to reduce debt bias in taxation and fight aggressive tax planning to ensure a level playing field, provide fair treatment of taxpayers and safeguard public finances and stability within the euro area. This includes continuing work on ***the Common Consolidated Corporate Tax Base (CCCTB)*****.**	
EA recommendation 3 (Structural policies: labour market and social protection systems)	
2019 EA Recommendation 3 - Broadly unchanged emphasis, but sharper policy recommendations	
2018 EAR 3: **Implement reforms that promote *quality job creation*, *equal opportunities* and *access to labour market*, *fair working condition*s, and support *social protection and inclusion*.** Reforms should aim at: (i) **reliable labour contracts,** which provide flexibility and security for employees and employers, combined with adequate support during transitions and avoiding labour market segmentation; (ii) **quality, efficient and inclusive life-long education and training systems,** which aim at matching skills with labour market needs; (iii) **effective active labour market policies** that foster labour market participation; (iv) **sustainable and adequate social protection systems** that contribute throughout the life cycle to social inclusion and labour market integration 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 and second earners**.**	**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**.**
EA recommendation 4 (Reforms of the Financial sector)	
2019 EA Recommendation 4 - Broadly unchanged emphasis, with new elements, such as a reference to: • Swiftly reducing the level of non-performing loans, including by removing ***debt bias in taxation***	
2018 EAR 4: In line with the Council (ECOFIN) 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, 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 non-performing loans*** on the basis of the agreed Council (ECOFIN) Action Plan 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.	**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 ***removing debt bias in taxation.***
EA recommendation 5 (EMU institutional reform)	
2019 EA Recommendation 5 - Main changes include reference to: • Completing the EMU with the perspective to ***strengthen the international role of the euro***	

• Taking into account the Commission's proposal concerning the ***Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.***	
2018 EAR 5: **Make *swift* progress on completing the economic and monetary union, *taking into account the Commission initiatives launched in autumn 2017***, in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.	**2019 EAR 5:** 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.***

Source: EGOV based on the 2018 Council recommendations and the draft 2019 Council recommendations.

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