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# BACKGROUND READER ON THE EUROPEAN SEMESTER

## The European Semester from a Parliamentary perspective

Economic Governance Support Unit (EGOV)
Directorate-General for Internal Policies
PE 624.444 - October 2020

EN

European Parliament

DIRECTORATE-GENERAL FOR INTERNAL POLICIES OF THE UNION

**ECONOMIC GOVERNANCE SUPPORT UNIT**

# BACKGROUND READER ON THE EUROPEAN SEMESTER

## AUTUMN 2020 EDITION

This document covers a selection of papers on the European Semester.

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The Economic Governance Support Unit provides in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

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# INTRODUCTION

The European Semester is a cycle for the coordination of economic, social and fiscal policies in the European Union. It is part of the European Union's economic governance framework. It allows EU Member States to discuss their economic and budgetary plans and monitor progress throughout the year.

The Lisbon Treaty has empowered national parliaments to "*contribute actively to the good functioning of the Union*" (Art. 12 TEU). The European Parliament and national parliaments play an increasing role in this process, according to their respective competence. Parliamentary scrutiny is necessary to guarantee the legitimacy and effectiveness of the whole economic governance framework.

This fourth edition of the background reader on the European Semester, prepared by the Economic Governance Support Unit (EGOV) in the Directorate for Economic and Scientific Policies of the European Parliament, provides an overview of publications related to the European Semester from a parliamentary perspective. It aims at further increasing the links between Members of the European Parliament and national Parliaments, notably during inter-parliamentary meetings.

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# Country-specific recommendations: An overview - September 2020

*This note provides an overview of the country-specific recommendations issued annually to EU Member States under the European Semester for economic policy coordination. It presents how these recommendations evolved over time (2012-2020), including from the legal base perspective. Finally, it gives insights on the level of implementation of recommendations issued under the 2012-2019 European Semester cycles. The note is updated on a regular basis.*

**Country-specific recommendations** (CSRs) provide guidance to EU Member States on macro-economic, budgetary and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). These recommendations, issued within the framework of the European Semester for economic policy coordination since 2011, are aimed at strengthening economic growth and job creation, while achieving or maintaining sound public finances and preventing excessive macroeconomic imbalances. They provide guidance for national reforms over the following 12-18 months.

As to the process, CSRs are proposed by the European Commission (COM) and discussed by the various Council formations. The CSRs, typically proposed by the COM in May each year, build, *inter alia*, on (1) the COM´s Country Reports which include, where applicable, In-Depth Reviews under the Macroeconomic Imbalance Procedure (MIP), (2) the general economic priorities for the EU as set out in the Annual Sustainable Growth Survey, (3) an assessment of Member States' Stability or Convergence Programmes (SCPs) and National Reform Programmes (NRPs) and (4) the outcome of dialogues with Member States and other national key stakeholders.

As a rule, the Council is expected to follow the COM proposal or explain its position publicly (“comply or explain” principle). Every year, after being endorsed by the European Council and formally adopted by the ECOFIN Council, CSRs are to be taken into account by Member States in the process of national decision making. The Council and the COM closely monitor the implementation of CSRs and take further actions, if judged appropriate.

In addition to CSRs, the COM proposes policy recommendations on the economic policy of the euro area as a whole based on Article 136 of the TFEU; since the 2016 European Semester, these proposals are published at the start of the Semester cycle (in November) to better integrate the euro area dimension into the national dimension (see a separate EGOV note for more details and latest euro area recommendations as adopted by the Council).

Forward looking, the Annual Sustainable Growth Survey published by the COM in September 2020 states that the European Semester and the new Recovery and Resilience Facility are intrinsically linked. The assessment of the recovery and resilience plans will be checked against CSRs, especially

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those of 2019 and 2020. Given the overlap of the deadlines within the European Semester and the Recovery and Resilience Facility (RRF), the COM announced that it will temporarily adapt the European Semester to the launch of the RRF. It will consider the recovery and resilience plans as main reference documents on the Member States' forward-looking policy initiatives. Given the complementarities with the Semester and in order to streamline the content and the number of documents requested, Member States are encouraged to submit the National Reform Programme and their Recovery and Resilience Plan (RRP) in a single integrated document. This document is expected to provide an overview of the reforms and investments that the Member State will undertake in the next years, in line with the objectives of the RRF (once adopted by the European Parliament and the Council).

For the Member States submitting their RRPs in 2021, the COM suggest to produce an analytical documents assessing the substance of the plans that would replace the European Semester country reports in 2021. These would be published in staggered batches, depending on the respective delivery of the RRPs and the finalisation of the COM's assessments. In addition, the COM proposed that given the need of comprehensive and forward-looking recovery and resilience plans, there will be no need for the COM to propose CSRs in 2021 for those Member States that will have submitted such a Plan. The COM will nevertheless propose recommendations on the budgetary situation of the Member States in 2021 as envisaged under the SGP.

## How have country-specific recommendations evolved over time?

**Since the 2015 Semester cycle, CSRs have been prepared in line with the so-called "streamlined Semester" -** an approach that is characterised, in particular, by fewer and refocused CSRs[1]; an earlier publication of the proposed recommendations on the economic policy of the euro area (i.e. at the very beginning of the cycle, along the publication of the Annual Growth Survey, since 2019 called the Annual Sustainable Growth Survey); an earlier assessment of the implementation of CSRs adopted under the previous cycle; inclusion of in-depth reviews under the MIP into the Country Reports (where applicable); and finally, an intensified dialogue between the COM and Member States as well as other European institutions, including the European Parliament.

Under the streamlined Semester, the recommendations also put greater emphasis on the objective to be achieved, while largely leaving the definition of the measures needed to attain it to the discretion of national authorities. The intended goal of all these refinements is to increase the political ownership of CSRs and accountability, and thereby improve their rate of implementation (see next Section).

While there has been a tendency over the years to streamline the recommendations, the COM has also tried to flag some topical issues in each cycle. For instance, in the 2019 Semester Cycle, each country report (published in February 2019) includes an assessment of the investment needs of the Member State in question and sets out some guidance for investment priorities. In order to ensure greater coherence between the coordination of economic policies and the use of EU funds, this guidance identifies country specific priority areas for policy action regarding public and private investment, and therefore constitutes an analytical basis both for the CSRs and the programming related EU funds in 2021-2027.

More recently, the 2020 CSRs (adopted by the Council in July 2020) target to mitigate the consequences of the COVID-19 pandemic, inter alia by prioritising access, effectiveness and resilience of health care or preserving employment and addressing the social impact of the crisis. A particularity of the 2020 CSRs is also that they take into account the activation on 20 March 2020 of the general escape clause under the Stability and Growth Pact. The clause allows departing from the

[1] Since 2015, some policy areas are not any more covered directly by CSRs, but via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union (see the COM Communication of 13 May 2015, p. 10).

budgetary requirements that would normally apply, with the aim at ensuring the needed temporary flexibility to take all necessary measures for supporting the Member States' health and civil protection systems and to protect the Member States' economies.

**Table 1:** CSRs - some stylized facts

| European Semester Cycle | Total number of CSRs | Number of Member States | Minimum number of CSRs per Member State | | Maximum number of CSRs per Member State | |
|---|---|---|---|---|---|---|
| **2012** | 138 | 23 | 4 | DE, SE | 8 | ES |
| **2013** | 141 | 23 | 3 | DK | 9 | ES, SI |
| **2014** | 157 | 26 | 3 | DK | 8 | ES, HR, IT, PT, RO, SI |
| **2015** | 102 | 26 | 1 | SE | 6 | FR, HR, IT |
| **2016** | 89 | 27 | 1 | SE | 5 | FR, HR, IT, CY, PT |
| **2017** | 78 | 27 | 1 | DK, SE | 5 | HR, CY |
| **2018** | 73 | 27 | 1 | DK, SE | 5 | CY |
| **2019** | 97 | 28 | 2 | DK, DE, EL, UK | 5 | CY, IT, RO |
| **2020** | 104 | 28 | 2 | DE | 5 | HU |

Source: EGOV based on CSRs as adopted by the Council.

Table 1 depicts some stylized facts on CSRs:

1. The **number of Member States taking part** in the twelve-monthly cycle of economic and fiscal policy coordination in the framework of the European Semester has gradually increased, as Member States receiving financial assistance successfully exited from the related programmes: all Member States are now fully included into the European Semester (Greece has CSRs since July 2019[2]).
2. The **total number of CSRs issued** to Member States significantly decreased under the streamlined Semester (from a peak of 157 recommendations in 2014 to a low of 73 in 2018 and to 104 in 2020). The overall reduction after 2014 largely reflects two elements: 1) new focus and prioritisation of the Semester - i.e. the fact that some policy area are no longer covered as from the 2015 Semester cycle, and 2) the fact that some policy areas that were covered separately in one Semester cycle have been merged during the next cycle - as a result, one recommendation may cover several policy areas that were previously addressed in separate recommendations (so in this respect this does not represent a decrease in terms of content).

   On the other hand, in its first Communication on the Annual Sustainable Growth Strategy (in November 2019), the COM recommended to broaden the scope of the Semester, notably by broadening the environmental sustainability and social fairness aspects, which may again contribute as from 2020 to an increasing number of CSRs.

[2] See for more information on the post-programme countries a separate EGOV briefing and a dedicated section on the ESM webpage

3. The **minimum and maximum numbers of CSRs** addressed to Member States were gradually reduced to stabilise at one and five, respectively, over the 2016-2018 cycles before increasing to two and five since the 2019 cycle.

**Box 1: Legal bases**

From a legal base perspective, the CSRs are underpinned by the EU primary legislation (Articles 121 and 148 of the TFEU) as well as the EU secondary legislation, namely:

1. Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies **for CSRs referring to the preventive arm of Stability and Growth Pact** (SGP);
2. Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances for **CSRs referring to the preventive arm of the Macroeconomic Imbalance procedure** (MIP);
3. Integrated guidelines for implementing the Europe 2020 strategy – these guidelines consist of two legislative documents: (1) a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union (latest issuance in 2015) and (2) a Council decision on guidelines for the employment policies of the Member States (latest COM proposal from February 2020). The content and the way how the existing set of guidelines will be continued is currently unclear, given that the Europe 2020 strategy is coming to its term and that the European Semester is announced (in the Annual Sustainable Growth Survey of September 2020) to focus for some time on the Recovery and Resilience Facility.

Furthermore, the CSRs are politically binding insofar they are endorsed by the European Council and formally adopted by the Council. The Council is expected to, as a rule, adopt the recommendations proposed by the COM or publicly explain its position.

A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP. These sanctions might include fines and/or suspension of European Funds.

Table 2 disentangles CSRs in relation to the EU legal base, showing that: each CSR is underpinned by the Integrated Guidelines; in addition, it is in many cases underpinned by the SGP and/or MIP. For example, a CSR related to public finances (normally the first CSR per Member State) is typically based on both the integrated guidelines and the SGP, but it can also be founded on all three legal bases: the integrated guidelines, the SGP and the MIP; this distinction is in particular of relevance when assessing the compliance with the CSR.

**Table 2:** Distribution of CSRs from a legal perspective

| European Semester | SGP + Integrated Guidelines | | MIP + Integrated Guidelines | | SGP + MIP + Integrated Guidelines | | Exclusively Integrated Guidelines | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | 18 | (13%) | 31 | (22%) | 5 | (4%) | 84 | (61%) | 138 | (100%) |
| **2013** | 18 | (13%) | 50 | (35%) | 6 | (4%) | 67 | (48%) | 141 | (100%) |
| **2014** | 19 | (12%) | 58 | (37%) | 8 | (5%) | 72 | (46%) | 157 | (100%) |
| **2015** | 11 | (11%) | 48 | (47%) | 10 | (10%) | 33 | (32%) | 102 | (100%) |
| **2016** | 13 | (15%) | 36 | (40%) | 9 | (10%) | 31 | (35%) | 89 | (100%) |
| **2017** | 12 | (15%) | 27 | (35%) | 8 | (10%) | 31 | (40%) | 78 | (100%) |
| **2018** | 11 | (15%) | 27 | (37%) | 5 | (7%) | 30 | (41%) | 73 | (100%) |
| **2019** | 9 | (9%) | 35 | (36%) | 5 | (5%) | 48 | (50%) | 97 | (100%) |
| **2020** | 20 | (19%) | 23 | (22%) | 8 | (8%) | 53 | (51%) | 104 | (100%) |

Source: EGOV calculations based on the European Commission. See also EGOV database on CSRs.
Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets.

In every year since 2013, about half or more of the recommendations have been underpinned by the SGP and/or MIP legal bases. The introduction of the streamlined Semester from the 2015 cycle, with fewer recommendations, has temporarily contributed to an increase in the proportion of recommendations based on SGP and/or MIP legal bases.

Also during the 2020 Semester cycle, about half of the recommendations were underpinned by the SGP or MIP legal bases, or both. Out of 11 Member States that are considered as experiencing either macroeconomic "imbalances" or "excessive imbalances", 4 received all their recommendations based on the MIP or MIP/SGP (EL, HR, IT and PT). For more details on the state of play of the MIP, see separate EGOV briefing.

A particularity of 2020 is that all countries received recommendations based on the SGP: 27 countries have a CSR relating to the general escape clause under the preventive arm of the SGP and 1 country (Romania) under the Excessive Deficit Procedure.

## How has CSRs Implementation evolved over time?

**Based on the regular annual assessment published by the COM in its Country Reports, more than half of CSRs (51.6%) were implemented, on average, with at least some progress over the period 2012-2019.**

**The CSRs annual implementation rate followed a downward trend over the period 2012-2016, before showing first signs of improvement in 2017 and then following a new downward trend in the period 2017-2019**[3]: the proportion of recommendations on which Member States made *at least some progress* declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before achieving 50% in 2017, 39% in 2018 and 39.8% in 2019 (see Figure 1).

At the same time, the share of recommendations with full/substantial progress has gradually decreased from 11% in 2012 to mere 1% in 2017, about 3% in 2018 and only about 1% in 2019. Note that these results are based on the assessment provided at the level of CSRs as a whole (and not on the assessment at sub-recommendations level[4]) and exclude the compliance with the provisions of SGP[5]. Furthermore, the analysis assigns identical weights to each and every CSR within and across Member States as well as across time. It also abstracts from difficulties linked to implementation of various types of reforms, including the electoral cycle.

**Implementation record has been uneven across policy areas and countries**. This unequal CSRs implementation "*often reflects the urgency of progress in specific areas, but also reveals the need for consensus building, notably where reform benefits are not uniformly spread*"[6]. Overall, Member States made most progress in the area of financial sector reform and public finances in response to the

3 As Deroose and Griesse (2014) pointed out, the observed downward trend in CSRs implementation is partly embedded in the European Semester process to the extent that "*recommendations implemented during the previous round will not be repeated in the next vintage of CSRs. Thus, Member States that have 'picked the low-hanging fruit' first may effectively be facing a more challenging set of CSRs in subsequent rounds of the European Semester, even without an active intention by the COM or the Council to 'get tougher'.*" This line of reasoning seems to be valid, in particular, from a medium-term perspective. Yet, in the long run, Member States will have some new 'low-hanging fruit' to harvest again. It remains to be seen to what extent this particular factor might explain the slight improvement in CSRs implementation record during the 2017 Semester cycle.

4 One recommendation often tackles policy challenges in several areas (sub-recommendations).

5 This has been the case since 2015 (assessment of the 2014 CSRs) due to an earlier publication of Country Reports (February/March) - that is before pubic finance data (for the preceding year) become available in April (see EDP notification). The compliance with the provisions of the SGP is assessed separately in the COM Assessment of Convergence and Stability Programmes published in May. However, the COM does not subsequently present an overview table with updated summary assessment for each and every Member State despite the fact that the outcome of assessment of compliance with the SGP seems to feed into the COM's data on its multiannual assessment of CSRs implementation.

6 The COM Communication on the 2018 European Semester: Country-specific recommendations of 23 May 2018, p.3.

economic and financial crisis (see a separate EGOV thematic briefing on CSRs in the area of banking). However, only a limited progress has been made on reforms of tax regimes. The COM observes *"progress has been particularly slow on broadening the tax base, as well as on health and long-term care, with the healthcare systems being further challenged because of the COVID-19." (*see Chapeau Communication on the 2020 European Semester).

Recognising that a number of CSRs relate to long-term structural issues, the COM presents in its Chapeau Communication on the 2020 European Semester **an assessment of CSRs implementation from both yearly and multiannual perspectives** (including progress on compliance with the SGP). This approach was introduced in 2017 by the COM and according to this yardstick *"Since the start of the European Semester in 2011, some implementation progress has been achieved for more than two-thirds of the country-specific recommendations."*, leading therefore to a somewhat more favourable picture of CSRs implementation record when compared with year-by-year assessment. This element confirms, according to the COM, that "*important reforms are eventually being carried out, though in many cases the process takes time*". The 2019 and European Semester country reports even include for each country, the overall multiannual implementation of 2011-2018 CSRs (excluding progress on compliance with the SGP).

The COM has repeatedly stressed that CSRs are focused on reform steps that can be implemented within 12-18 months. Under the current setup of the European Semester, they are proposed by the COM in May, before being adopted by the Council in July (of year *t*). However, their implementation is assessed already in February (of year *t+1*), namely after a period of only eight months. This is one of the factors that currently generates, *ceteris paribus*, a downward bias in the "yearly" assessment of implementation of CSRs as adopted in the previous year and is a reason why the multiannual approach might seem more appropriate. Yet, on the other hand, the multiannual approach may introduce an upward bias in the results, since one can expect that some action is taken on a majority of recommendations over a sufficiently long period.

Despite this increasing focus on multiannual assessments (compared to assessment of progress since the adoption of the CSRs of the previous year), it may be noticed that the COM has neither published the methodology underlying its multiannual assessment, nor the fully fledged country-specific multi-annual assessments themselves[7]. In line with this, the **European Court of auditors** identified in its report of September 2020 incomplete information in the non-public database of the COM assessing implementation progress regarding the CSRs of the previous year (this database, called Cesar, is accessible to Member States' administrations but not to the services of the European Parliament) and the Court also **recommends to "set up a publicly available multi-annual database of all CSRs and their implementation status".**

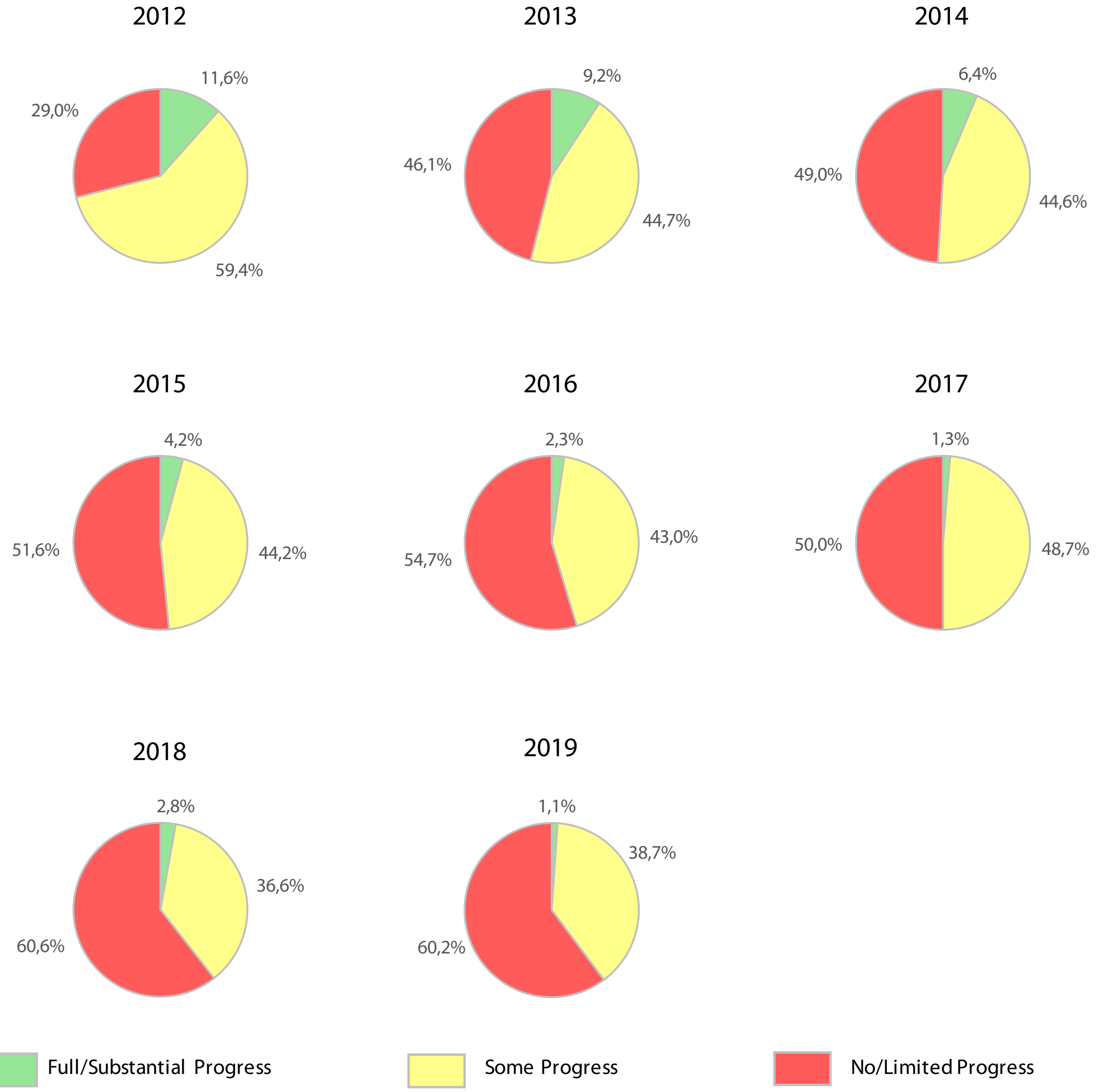
**Box 2: EGOV public database on CSRs**

The Economic Governance Support Unit (EGOV) at the EP has compiled and is constantly updating a public excel database on CSRs. The database contains annual information for each Member State on CSRs, their legal basis, implementation level and implementation score. The database is compiled to help MEPs in scrutinizing EU economic governance.

The most up to date version of the database can be found on EP ECON Committee website.

[7] In June 2018, Bruegel published a Policy contribution "Is the European Semester effective and useful?" covering CSRs implementation from various perspectives, including assessment based on a multiannual approach. In April 2019, Bruegel expanded its analyses by making an estimation of other factors, such as the macroeconomic environment and pressure from financial markets, that could influence the implementation of CSRs (see their Working paper "What drivers national implementation of EU policy recommendations?).

**Figure 1:** CSRs implementation rate per year in 2012-2019 ("an annual perspective of progress")




Source: EGOV calculations based on the European Commission assessment provided in Country Reports. All data is available in an EGOV database on CSRs. Notes: (1) Based on the COM assessment of actions taken (rather than outcomes that may materialise with a lag), assigning identical weights to all recommendations, within and across Member States. (2) Data exclude the COM assessment of the progress made as regards the compliance with the SGP (these SGP-related recommendations are either part of CSR1 or the single element that is reflected in the CSR1). The COM makes annually a separate assessment of these specific SGP-related recommendations as part of its opinions on the SCPs.



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# The legal nature of Country-Specific Recommendations

The Country-Specific Recommendations (CSRs) are annually adopted by the Council based on the proposals by the European Commission within the framework of the European Semester. The CSRs provide integrated guidance on macro-fiscal and macro-structural measures based on the European Commission assessment of Member States' medium-term budgetary plans and national reform programmes in light of broad policy priorities endorsed by the European Council or adopted by the Council on the basis of the Annual Sustainable Growth Survey (formerly Annual Growth Survey). In 2020, the CSRs have been slightly different to previous years as they now also target to mitigate the short term economic and social consequences of COVD-19. Table 1 displays the development of the number of CSRs and the minimum and maximum number per Member State.

**Table 1:** Country-Specific Recommendations - some stylized facts

| European Semester | Total number of CSRs | Number of Member States | Minimum number of CSRs per Member State | | Maximum number of CSRs per Member State | |
|---|---|---|---|---|---|---|
| **2014** | 157 | 26 | 3 | DK | 8 | ES, HR, IT, PT, RO, SI |
| **2015** | 102 | 26 | 1 | SE | 6 | FR, HR, IT |
| **2016** | 89 | 27 | 1 | SE | 5 | FR, HR, IT, CY, PT |
| **2017** | 78 | 27 | 1 | DK, SE | 5 | HR, CY |
| **2018** | 73 | 27 | 1 | DK, SE | 5 | CY |
| **2019** | 97 | 28 | 2 | DK, DE, EL, UK | 5 | IT, CY, RO |
| **2020** | 104 | 28 | 2 | DE | 5 | HU |

Source: EGOV based on CSRs adopted by the Council. Note: The number of Member States having received CSRs is lower than the total number of EU Member States for the years 2014-2018, given that CSRs have not been proposed for countries that were under a macro-economic adjustment programmes.

From the legal perspective, the CSRs are underpinned by the EU primary legislation (Articles 121 and 148 of the TFEU) as well as the EU secondary legislation, namely:

1) Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies for CSRs referring to the Stability and Growth Pact (SGP);
2) Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances for CSRs referring to the Macroeconomic Imbalance procedure (MIP);
3) Integrated guidelines for implementing the Europe 2020 strategy – they consist of two legislative documents: (1) a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union and (2) a Council decision on guidelines for the employment policies of the Member States.

The Council also adopts policy recommendations to the euro area as a whole in accordance with Article 136 of the Treaty on the Functioning of the European Union (TFEU) following a European Commission proposal.

The CSRs are to be taken into account by Member States in the process of national decision-making and, in particular, in drafting the budgetary plans for the forthcoming year. A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP and in fines and/or suspension of up to five European Funds.

As shown in Table 2, each CSR is underpinned by the Integrated Guidelines; in addition, it is in many cases underpinned by one or both of the two relevant EU secondary legislations (SGP, MIP). For example, a CSR related to public finances (normally the first CSR per Member State) is typically based on both the integrated guidelines and the SGP, but it can also be founded on all three bases: the integrated guidelines, the SGP and the MIP; this distinction is in particular of relevance when assessing the compliance with the CSR (please see an EGOV briefing giving an overview of CSRs).

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**Table 2: Country-Specific Recommendations from legal perspective (European Semesters 2014-2020)**

| Member State | Total CSRs | | | | | | | CSRs based on the integrated guidelines and on SGP | | | | | | | CSRs based on the integrated guidelines and on MIP | | | | | | | CSRs based on the integrated guidelines and jointly on SGP and MIP | | | | | | | CSRs based exclusively on the Integrated Guidelines | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| **Belgium** | 6 | 4 | 3 | 3 | 3 | 4 | 3 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 2 | 2 | 2 | 3 | 2 |
| **Bulgaria** | 6 | 5 | 4 | 4 | 3 | 4 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 3 | 3 | 2 | 2 | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 2 | 1 | 0 | 2 | 1 | 3 | 3 |
| **Czech Republic** | 7 | 4 | 3 | 2 | 2 | 3 | 3 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 3 | 3 | 2 | 2 | 3 | 2 |
| **Denmark** | 3 | 2 | 2 | 1 | 1 | 2 | 3 | 1 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1 | 1 | 1 | 1 | 2 | 2 |
| **Germany** | 4 | 3 | 3 | 2 | 2 | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 3 | 3 | 3 | 2 | 2 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Estonia** | 5 | 3 | 2 | 2 | 2 | 3 | 4 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 2 | 2 | 1 | 1 | 2 | 3 |
| **Ireland** | 7 | 4 | 3 | 3 | 3 | 3 | 4 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 3 | 1 | 1 | 1 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 2 | 1 | 1 | 1 | 0 | 1 | 1 |
| **Greece** | – | – | – | – | – | 2 | 4 | – | – | – | – | – | 0 | 0 | – | – | – | – | – | 2 | 3 | – | – | – | – | – | 0 | 1 | – | – | – | – | – | 0 | 0 |
| **Spain** | 8 | 4 | 4 | 3 | 3 | 4 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 3 | 3 | 2 | 2 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **France** | 7 | 6 | 5 | 4 | 3 | 4 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 | 4 | 3 | 2 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **Croatia** | 8 | 6 | 5 | 5 | 4 | 4 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 5 | 4 | 4 | 4 | 4 | 3 | 1 | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Italy** | 8 | 6 | 5 | 4 | 4 | 5 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 5 | 4 | 3 | 3 | 4 | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Cyprus** | – | – | 5 | 5 | 5 | 5 | 4 | – | – | 0 | 0 | 0 | 0 | 0 | – | – | 4 | 3 | 5 | 5 | 2 | – | – | 1 | 1 | 0 | 0 | 1 | – | – | 0 | 1 | 0 | 0 | 1 |
| **Latvia** | 5 | 4 | 3 | 3 | 3 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 3 | 2 | 2 | 2 | 3 | 3 |
| **Lithuania** | 6 | 3 | 3 | 3 | 3 | 3 | 3 | 1 | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 2 | 2 | 2 | 3 | 3 | 2 |
| **Luxembourg** | 5 | 3 | 2 | 2 | 2 | 4 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 3 | 2 | 2 | 2 | 4 | 3 |
| **Hungary** | 7 | 5 | 3 | 3 | 3 | 4 | 5 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 3 | 2 | 2 | 2 | 2 | 3 | 4 |
| **Malta** | 5 | 4 | 2 | 2 | 2 | 3 | 4 | 1 | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 3 | 1 | 1 | 2 | 3 | 3 |
| **Netherlands** | 4 | 3 | 3 | 2 | 2 | 3 | 4 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 2 | 3 | 1 | 2 | 2 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 1 | 2 |
| **Austria** | 5 | 4 | 3 | 2 | 2 | 3 | 4 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 3 | 2 | 1 | 1 | 3 | 3 |
| **Poland** | 6 | 4 | 3 | 3 | 3 | 3 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 3 | 2 | 2 | 2 | 2 | 3 |
| **Portugal** | 8 | 5 | 5 | 4 | 3 | 4 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 4 | 3 | 2 | 3 | 3 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 7 | 1 | 0 | 0 | 0 | 0 | 0 |
| **Romania** | 8 | 4 | 4 | 3 | 3 | 5 | 4 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 3 | 0 | 0 | 0 | 3 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 7 | 0 | 3 | 2 | 2 | 1 | 2 |
| **Slovenia** | 8 | 4 | 4 | 3 | 2 | 3 | 3 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 7 | 4 | 2 | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 2 | 2 |
| **Slovakia** | 6 | 4 | 3 | 3 | 3 | 4 | 4 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 4 | 2 | 2 | 2 | 3 | 3 |
| **Finland** | 5 | 4 | 3 | 3 | 3 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 2 | 2 | 3 | 3 |
| **Sweden** | 4 | 1 | 1 | 1 | 1 | 3 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 2 |
| **UK** | 6 | 3 | 3 | 3 | 3 | 2 | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 2 | 2 | 2 | 1 | 2 |
| **Total** | **157** | **102** | **89** | **78** | **73** | **97** | **104** | **19** | **11** | **13** | **12** | **11** | **9** | **20** | **58** | **48** | **36** | **27** | **27** | **35** | **23** | **8** | **10** | **9** | **8** | **5** | **5** | **8** | **72** | **33** | **31** | **31** | **30** | **48** | **53** |

Source: EGOV based on the Country-Specific Recommendations adopted by the Council. Note: Member States subject to a macroeconomic adjustment programme are, in accordance with Article 12 of Regulation No 472/2013, exempted from the monitoring and assessment under the European Semester. Since August 2018 all financial assistance programmes to EU Member States have been concluded (see separate EGOV briefing), so that currently all EU Member States receive Country-Specific Recommendations under the European Semester.

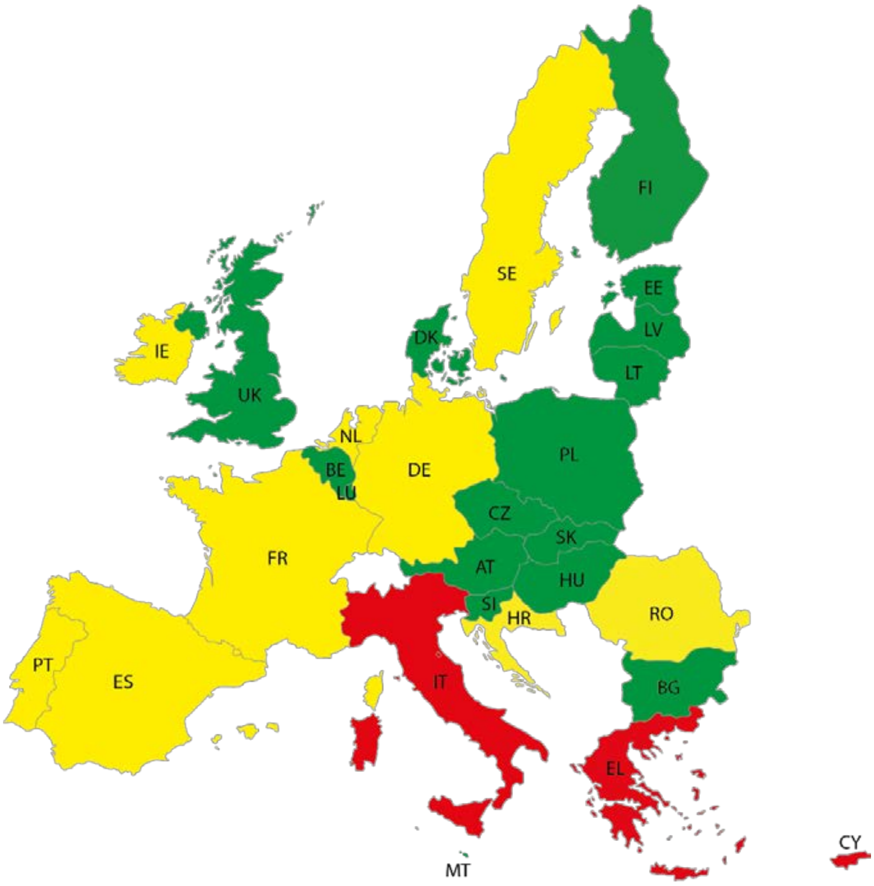
IN-DEPTH ANALYSIS

# Implementation of the Macroeconomic Imbalance Procedure: State of play August 2020

*This note presents the EU Member States' situation with respect to the Macroeconomic Imbalance Procedure, taking into account the most recent assessments and decisions by the European Commission and the Council. It also gives an overview of relevant positions taken on the MIP by EU institutions. A separate EGOV note describes the MIP procedure. This document is regularly updated.*

In February 2020, the Commission concluded that:

- 16 Member States are not considered at risk of "macroeconomic imbalances"
- 9 Member States are considered experiencing "macroeconomic imbalances"
- 3 Member States are considered being in a situation of "excessive macroeconomic imbalances".




*Source: EGOV based on European Commission, 2020*

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PE 497.739 - August 2020

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# 1. Implementation of the MIP in the 2020 Semester

The Commission published in December 2019 its latest Alert Mechanism Report (AMR). This report presented the analysis of the macroeconomic situation and imbalances in the EU and in individual Member States, as well as in the euro area. The AMR launched the ninth annual round of the Macroeconomic Imbalance Procedure (see an EGOV note for a description of the MIP procedure). It identified thirteen Member States as at risk of macroeconomic imbalances (Section 1.1).

In February 2020, the Commission published its 2020 Communication on Macroeconomic imbalances and the Country Reports, which include the in-depth-reviews of the thirteen countries considered deserving further analysis in December 2019. Twelve Member States were considered as experiencing macroeconomic imbalances, three of them excessive (Section 1.2).

On 20 May 2020, the Commission published the draft Country Specific Recommendations (CSRs): whilst relying on the analysis included in the Country Reports, they mainly refer to the crisis following the Covid pandemic and the Spring 2020 Forecast. For Member States experiencing macroeconomic imbalances, some CSRs are underpinned by the MIP procedure. In July, the Council adopted the CSRs, after endorsement by the European Council. (Section 1.3).

Meanwhile, the Commission launched a review of the EU economic governance framework, in accordance with the relevant legislation, of which the MIP is an important component (Section 1.4).

## 1.1 Main findings from the AMR 2020 - December 2019

The analysis of the overall macroeconomic situation in the EU showed a **weakening of the economic expansion** that Europe had previously experienced, shown in the Autumn 2019 Forecast. Positive but slow growth was expected for 2020 in all Member States, with decrease of net exports and of manufacturing output. The Commission stated "*Downward risks to the economic outlook relate in particular to trade tensions and the disruption of global value chains, a stronger than expected slowdown in emerging markets, the aggravation of geo-political tensions*".

On the basis of an economic reading of the "MIP scoreboard" and its auxiliary indicators (see Figure 1 and Annex 1), the Commission identified 13 Member States that required in-depth reviews:

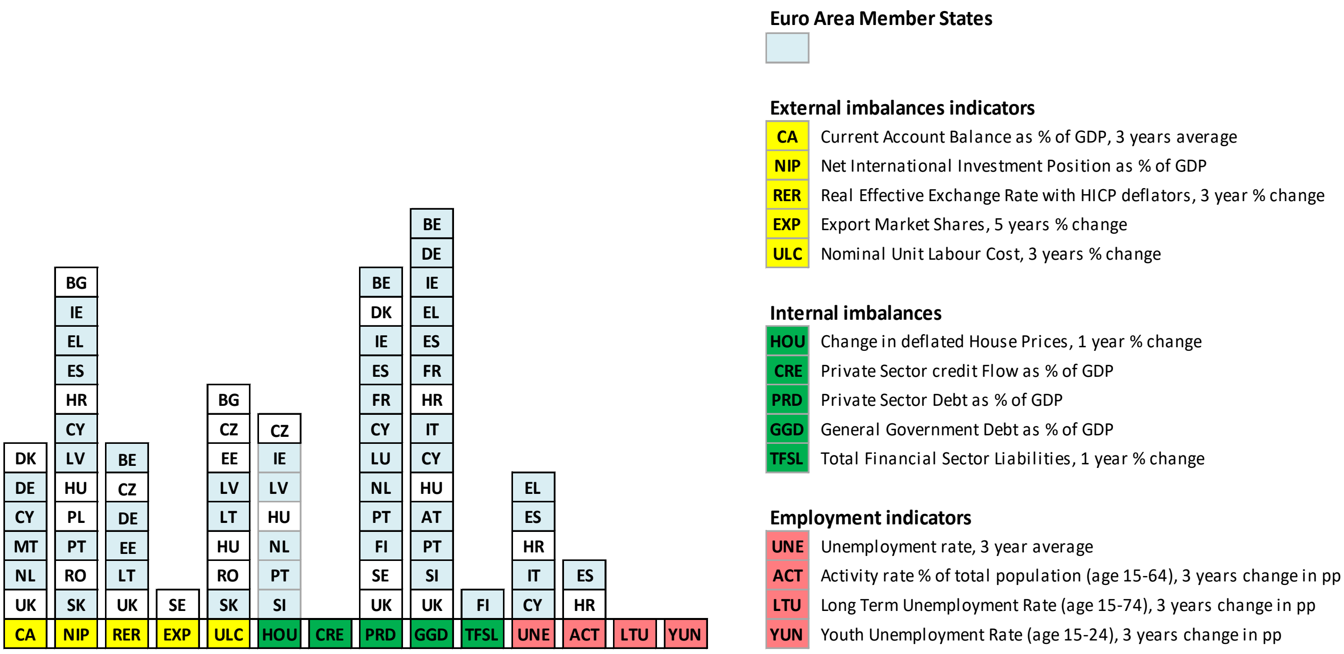
- Greece, Cyprus and Italy (that were experiencing excessive macroeconomic imbalances during the 2019 cycle),
- Bulgaria, France, Germany, Cyprus, Ireland, the Netherlands, Portugal, Romania, Spain and Sweden (that were experiencing macroeconomic imbalances during the 2019 cycle).

The Commission's analysis showed that:

- **There was still a need to rebalance current accounts and external positions.** Only two countries (Cyprus and the United Kingdom) had recorded external deficits beyond the MIP threshold in 2018, while several countries were requested to make further efforts to reduce their stock of net foreign liabilities. In contrast, elevated current accounts surpluses continued in some countries: Denmark, Germany, Malta and the Netherlands.
- **Cost competitiveness conditions were becoming less favourable for several Member States:** labour cost was growing at a fast rate in a majority of countries (especially in central and Eastern Europe), not completely in line with productivity growth, implying risks of losses in cost competitiveness.
- **Real effective exchange rates** had been appreciating in all EU Member States except Sweden and the UK.

- The private sector was deleveraging, and the **private debt-to-GDP ratio was decreasing**, mainly due to high nominal GDP growth, but at a slower pace than in previous years. Deleveraging was mostly visible in the business sector, whilst households were increasing borrowing. **Public debt** was declining in most, but not all, high-debt countries.
- **House prices** continued growing in most Member States, with several cases pointing to over-evaluation; nevertheless, the acceleration decreased in 2018 compared to previous years, especially in countries with over-evaluation and high households' debt.
- The resilience of the EU **banking sector** was improving. Non-Performing-Loans ratios were declining, notably in those Member States with high stocks, but challenges remained in countries characterised by low capitalisation and profitability.
- **Unemployment indicators** and activity rates were showing a general improvement, but with differences among Member States. Wage growth was gradually resuming.

**Figure 1**: MIP scoreboard - Member States with values beyond the thresholds




Source: EGOV based on 2020 Alert Mechanism Report. Values for 2018.

For the **euro area, the Commission noted that it continued to have the world's largest current account surplus**. It was expected to decrease, because of slowing export demand, reflecting the weakening of global trade and the higher energy deficit. The euro area surplus should be reduced to help overcoming the low-inflation and the low-interest rate environment, and to reduce the dependency on foreign demand (Box 1 presents some positions on the current account imbalance in the euro area taken by various institutions).

The Commission concluded that "*All in all, sources of potential imbalances are broadly the same as those identified in the AMR 2019, but prospects appear to be worsening in a number of respects.*"

The ECOFIN Council discussed the AMR in February 2020 and drew its conclusions (see Box 2).

## 1.2 February 2020: the Country reports, the In-depth-reviews and their conclusions

On 26 February 2020, the Commission published the so-called "Winter package", composed of the Communication "Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth-reviews" and the 28 "Country reports".

The Communication provided an overview of the evolution of macroeconomic imbalances in the MIP context, relying on the economic agenda presented in the latest Annual Sustainable Growth Strategy, aimed at "competitive sustainability" and its four dimensions:

- environmental sustainability
- productivity gains
- fairness
- macroeconomic stability.

The Country reports provided a detailed analysis of the key socio-economic challenges of macroeconomic relevance and also the Commission assessment of the Member States' progress with the implementation of the Country Specific Reccomendations: Annex 2 presents the 2019 CSRs underpinned by the MIP procedure, together with the Commission's assessment of their implementation (see also Section 2.2 below).

This year, these reports included also some new features, namely:

- monitoring the elements of macroeconomic relevance in the National Energy and Climate Plans (submitted by Member States in December 2019) in the wider and more recent context of the European Green Deal;
- monitoring the Sustainable Developments Goals, with focus on the macroeconomic and employment policies that can help to deliver them;
- focusing on those regions and sectors most challenged by the transition towards climate neutrality, in view of guiding the use of the Just Transition Fund.

For the thirteen countries identified in November 2019, the Country reports also included the In-depth-reviews (IDRs), which focus on macroeconomic imbalances and possible spill-over effects.

The Commission assessed whether imbalances or excessive imbalances exist, and concluded that:

- **3** Member States are considered being in a situation of "excessive macroeconomic imbalances": Cyprus, Greece and Italy.
- **9** Member States are considered experiencing "macroeconomic imbalances": Germany, Ireland, Spain, France, Croatia, the Netherlands, Portugal, Romania and Sweden.
- **16** Member States are not considered at risk of "macroeconomic imbalances": Belgium, Bulgaria, Czechia, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Malta, Hungary, Austria, Poland, Slovenia, Slovakia, Finland and UK. (Bulgaria, submitted to IDR, was considered not a risk of imbalances).

Once again, the Commission did not propose the opening of the **Excessive Imbalance Procedure**: despite being advocated by many (see Box 3), this procedure has never been proposed.

The Country reports usually constitute the analytical basis for dialogues between the Commission and the Member States before the submission of their **National Reform Programmes (NRPs) in April**, as well as for the formulation of the Commission's proposals for the 2020 Country Specific Recommendations. The break-up of the pandemic crisis disrupted the traditional running of the European Semester. On 16 April, the ECOFIN Council agreed on the simplification of information requirements: "*The simplified process is intended to preserve the European Semester's main milestones, while taking into account the challenging times Member States are facing. In particular, there would be a streamlined approach for the submission of national reform and stability or convergence programmes by Member States.*" All Member States (except Italy) submitted the 2020 National Reform Programmes.

In May 2020, the Council drew its conclusions on the In-depth reviews and the implementation of the 2019 CSRs (see Box 2). This year, the Economic Policy Committee prepared and discussed summaries of the review of each individual country report and the classification of imbalances from the in-depth-reviews, including a stock-taking of the CSRs implementation. These summaries also presented methodological suggestions addressing the Commission' analysis.

### 1.3 The "European Semester 2020 Spring Package"

The Commission presented on 20 May a Communication and the 28 draft 2020 Country Specific Recommendations. The CSRs are prioritising the mitigation of the socio-economic impact of the pandemic and subsequent economic recovery. To this scope, the CSRs focus on two aspects:

- First, the immediate fiscal, economic, employment and social responses to the crisis, with specific emphasis on health related aspects.
- Second, the medium-term reform and investment priorities, to put the economies back on track to growth, while integrating the green transition and the digital transformation.

The Commission stated "*The country reports can provide input on the areas for future growth once the exceptional circumstances (e.g. confinement) are over.*".

It is worth noting that the fiscal elements of the CSRs were adapted to take into account the activation of the general escape clause of the Stability and Growth Pact. Nevertheless, the Commission highlighted that previous cycles of the European Semester - prior to the onset of the pandemic - covered reforms deemed essential to address medium and long-term structural challenges, and that those challenges are still relevant. Those recommendations remain pertinent and would still be subject to monitoring.

Furthermore, the Commission notes "*The unprecedented situation has required a specific approach of this year's European Semester. Over the past decade, the* ***European Semester has become the key tool for the coordination of national economic and employment policies****. It is currently an integral part of the EU's effort to contain the spread of the virus, support national health systems, protect and save lives, and counter the social and economic impact of the pandemic. Therefore,* ***the proposed recommendations highlight economic and employment policies adapted to the new socio-economic priorities*** *of the COVID-19 crisis in areas of common concern. This approach has only been possible with* ***even closer cooperation between the Commission and Member States****. Close contact and intensive dialogue have been key to understanding and identifying policies and best practices adopted to mitigate and address the socio-economic impact of the virus. As a result, the* ***Commission has updated its analysis of the Member States' social and economic situation presented in the 2020 country reports*** *to reflect the current economic and social circumstances in each Member State. The Commission has held bilateral meetings with Member States via videoconference during the month of April and has maintained a continuous dialogue with Member States multilaterally and bilaterally, including through the relevant Committees and with the European Semester Officers in the capitals... Close* ***alignment between the EU budget and the European Semester*** *is essential to ensure stability, productivity and fairness in the economic recovery across the EU with the twin green and digital transitions at its heart.*".

On 9 June, the ECOFIN Council took stock of the preparations of Country Specific Recommendations for this year's European Semester exercise. On 20 July the Council formally adopted the CSRs, after the European Cuncil had endorsed them.

For Member States experiencing macroeconomic imbalances or excessive macroeconomic imbalances, the **CSRs may be partly or totally underpinned by the MIP**: Annex 3 presents the draft 2020 CSRs for each Member State concerned. None of the CSRs proposed for Sweden addresses its macroeconomic imbalances, despite Sweden being considered as experiencing macroeconomic imbalances. Among the 45 CSRs targeting the twelve Member States with macroeconomic imbalances, 31 have the MIP as a legal basis.

Section 2.2 below provides details on the evolution of MIP-related CSRs and their implementation over time.

**Box 1: Some institutional positions on current account imbalances in the euro area**

The **Commission** noted in the AMR 2020 that "*The euro area current account balance has peaked, but still records very elevated levels. The current account balance of the euro area has moved from a broadly-balanced pre-crisis position to a peak of 3.2 % of GDP in 2016. Since then, its value has come down very slightly, reaching 3.1% of GDP in 2018( ... ) It mainly reflects the large surpluses recorded in Germany and the Netherlands, whose combined external balances accounted for 2.8% of euro area GDP in 2018. At unchanged policies, the euro area adjusted current account surplus is expected to fall in 2019 according to the European Commission autumn 2019 forecast, reaching 2.7% of GDP, and to further decline to 2.5% of GDP by 2020 (... ). The ongoing reduction in the euro area surplus is mainly the result of a weakening trade balance.*" Furthermore, the Commission states "*...rebalancing of both current account deficits and surpluses is pressing in the current economic context and would be beneficial for all Member States.*". It can be noted that in the Spring 2020 Forecast the Commission published the following estimates /projections of current account: 3.3%, 3.4% and 3.6% of GDP for 2019, 2020 and 2021 respectively.

In its conclusions on the the Alert Mechanism Report of February 2020, the **ECOFIN** noted that "*large current account deficits have generally been corrected, while the reduction of the largest current account surpluses has been modest. The aggregate surplus of the euro area remains at an elevated level. (... ) Member States with large current account surpluses should further strengthen the conditions to promote wage growth, while respecting the role of social partners, and implement as a priority measures that foster public and private investment, support domestic demand and growth potential, thereby also facilitating rebalancing. Acknowledges that symmetric rebalancing of current account can be beneficial for all Member States, generally supporting deleveraging in the euro area as a whole. (…)*".

In its resolution on "the European Semester for economic policy coordination: Annual Growth Survey 2019" of 13 March 2019, the **European Parliament** pointed out that "*some Member States with good fiscal space have consolidated even further, thereby contributing to the euro area's current account surplus*" It also "*Welcomed the Commission's efforts to encourage those Member States with current account deficits or high external debt to improve their competitiveness, and those with large current account surpluses to promote demand by increasing wage growth in line with productivity growth and to foster productivity growth by promoting investment*".

The **ECB** occasional paper of June 2018 on "Macroeconomic imbalances in the euro area: where do we stand?" reads "*Most of the euro area countries are currently running a surplus, with the notable exception of France. Across countries, a debate has emerged in recent years regarding the nature of the large current account surplus, in particular in the larger euro area countries such as Germany and the Netherlands. Drivers of the German current account surplus are the high household saving rate and the increasing saving rates of the corporate and government sectors. It is also driven by weak investment dynamics, notably in the public sector, as evidenced by a persisting public sector investment differential compared to the euro area. Stronger investment demand in Germany would likely contribute to a more symmetric average euro area rebalancing (...) While current account balances have turned positive for many euro area countries, their levels are not high enough to foster quicker adjustment of the stock of external debt*".

In its 2020 External Sector Report: Global Imbalances and the Covid-19 crisis, the **IMF** noted (p. 1) that in 2019 **"***The euro area surplus declined by 0.4 percentage point of GDP, to 2.7 percent of GDP, reflecting weaknesses in services and investment income balances*". Furtehrmore, the euro area presents a configuration of overall external positions - compared with their estimated desirable levels - stronger than the level consistent with medium-term fundamentals and desirable policies (p. 4). It also recommended (p. 24) : "*Contain the COVID-19 outbreak and its economic consequences and provide relief to households and corporates to reduce scarring from the crisis; maintain accommodative monetary policy. Implement area-wide initiatives (banking and capital markets union and fiscal capacity for macro-stabilization) to further reinvigorate investment*". As for 2020, "*the current account surplus is projected to narrow by 0.4 percentage point of GDP to a surplus of 2.3 percent of GDP amid the decline in global trade and investment income... Nevertheless, imbalances that existed prior to the COVID-19 outbreak could remain sizable at the national level" (p. 70)*. The Fund adds "*As with the CA, the aggregate REER gap masks a large degree of heterogeneity in REER gaps across euro area member states, ranging from an undervaluation of 11 percent in Germany to overvaluations of 0 to 9 percent in several small to mid-sized euro area member states. The large differences in REER gaps... highlight the continued need for net external debtor countries to improve their external competitiveness and for net external creditor countries to boost domestic demand*" (Table 3.7).

## 1.4 The review of the Economic Governance framework

In accordance with Regulation 1176/2011 (Article 16) and Regulation 1174/2011 (Article 7), the Commission published in February 2020 a Communication on **"Economic governance review[1]"**. The MIP, is, together with the Stability and Growth Pact, an important component of the Economic Governance framework. The purpose of this Communication was to start a public debate on the extent to which the different surveillance elements introduced or amended by the 2011 and 2013 reforms have been effective in achieving their key objectives, namely:

(i) ensuring sustainable government finances and growth, as well as avoiding macroeconomic imbalances,

(ii) providing an integrated surveillance framework that enables closer coordination of economic policies in particular in the euro area, and

(iii) promoting the convergence of economic performances among Member States.

Over the years, the Commission had introduced several procedural and methodological changes in the Economic Governance Framework and in the European Semester, in line with the Communication "On steps towards completing Economic and Monetary Union" of October 2015. Annex 4 presents these changes in the context of the MIP: they aimed at streamlining the procedure, improving its transparency and predictability[2], as well as at increasing the focus on employment and social issues. In 2018, a Special Report of the Court of Auditors examined the implementation of the MIP, and found that "*Although the MIP is generally well designed, the Commission is not implementing it in a way that would ensure effective prevention and correction of imbalances... We therefore make a number of Recommendations to the Commission to substantially improve certain aspects of its management and to give greater prominence.*" (see also Box 4).

Section 2.2 of the Communication of February 2020 is specifically devoted to the MIP, and the Commission states "*Despite progress made for a transparent implementation of the MIP, further efforts could be pursued on the link between the MIP analysis and recommendations and the interplay between the MIP and other surveillance procedures.*".

The Commission then launched a public debate, to give stakeholders the opportunity to provide their views on the functioning of surveillance so far and on possible ways to enhance the effectiveness of the framework in delivering on its key objectives.

Originally, citizens and institutions were invited to submit their responses to the questions set in the Communication by 30 June 2020. However, the public debate on the future of the economic surveillance framework has been impacted by the need to focus on the immediate challenges of the coronavirus crisis. Therefore, the period of public consultation has been extended and the Commission is expected to return to the review exercise when the immediate challenges have been addressed.

The Coordinators of the ECON Committee requested EGOV to provide three papers, written by academic experts, aimed at analysing how the procedure worked so far and making proposals on its improvement. The following papers were published between February and May 2020:

- **How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?** By Agnès Bénassy-Quéré (Chief Economist at Treasury - France, and Sorbonne University), Guntram Wolff (Director, Bruegel).
- **Macroeconomic Imbalances Procedure: has it worked in practice to improve the resilience of the euro area?** By Lorenzo Codogno.

[1] "Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU", i.e. the set of legal acts comprising the provisions on the EU economic governance framework, published in 2011 and 2013, also known as "Six-pack" and "Two-pack".

[2] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" of November 2016, which provides an overview of how the framework functions and how its application has evolved over time.

- **How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?** By Alexander Kriwoluzky and Malte Rieth - DIW Berlin and Freie Universität Berlin.

Annex 5 to this document provides a summary of the three papers.

## 1.5 Next procedural and institutional steps

The 2020 Europan Semester cycle was concluded on 20 July 2020 with the Council's adoption of the Country Specific Recommendations.

For those countries that have been identified as experiencing imbalances, the **Commission** carries specific monitoring activities on a continuous basis.

In addition, Economic dialogues with representatives of the relevant institutions (Commission, the Eurogroup and the Council) are held in ECON, the competent committee of the European Parliament.

**Box 2: Excerpts from Council conclusions related to MIP in 2020**

May 2020, Conclusions on In-depth-reviews and implementation of 2019 CSRs. The Coucil, while noting that the Commission package was adopted prior to the pandemic crisis:

- Recognises that for tackling unprecedented severe socio-economic consequences of the COVID-19 pandemic, a coordinated and comprehensive response to the pandemic is crucial to prepare the ground for the recovery across the Union. Stresses the need for making full use of the flexibility of the EU economic policy coordination framework, as strengthened in the light of the previous global economic and financial crisis.
- Calls for swift and targeted coordinated policy action for rapidly overcoming the economic crisis and building a basis for sustainable and inclusive growth... The **European Semester provides the framework for continued economic policy coordination in the EU, as well as for identification of new emerging challenges.**
- Welcomed the Commission's publication of the European Semester 2020 **country reports**.
- Recalls that the multiannual assessment by the Commission illustrates that a number of country-specific recommendations relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise. Nevertheless, notes that **the overall implementation rate of the 2019 country-specific recommendations remained low,** despite a rather favourable economic environment over the last years. Reform implementation continued to vary across policy areas and countries and has been strong in financial services and active labour market policies. Progress has remained slow in addressing competition in services and with regard to the long-term sustainability of public finances.
- Considers that the in-depth reviews present a high-quality and comprehensive analysis of the country situation in each Member State under review. Acknowledges that relevant analytical tools, complemented by substantive qualitative analysis, have been applied in view of the specific challenges of each economy. Recognises that the in-depth reviews provide an assessment of the situation before the outbreak of the pandemic and the subsequent economic downturn. Stresses that **the evolution of these imbalances should be monitored against the background of the pandemic**.
- Agrees that 12 Member States analysed in the in-depth reviews ... are **experiencing macroeconomic imbalances** of various nature and degree of severity under the MIP... Agrees that **excessive imbalances** exist in three Member States (Cyprus, Greece and Italy).
- Highlights the role of the MIP for detecting, preventing and correcting macroeconomic imbalances and thereby strengthening economic resilience, and the importance of maintaining a regular review of developments, including in the framework of specific monitoring.
- Recalls that the Council will discuss Macroeconomic Imbalance Procedure as part of the **review of the economic governance legislation**.

February 2020, Conclusions on the 2020 AMR. The Council:

- Broadly agrees with the Commission's horizontal analysis of the adjustment of macroeconomic imbalances in the EU and within the euro area. Welcomes that the **gradual correction of existing imbalances has continued** amid favourable economic conditions. Notes that the reduction of large stocks of private and government debt has continued in most Member States on the back of nominal GDP growth, but **government debt ratios have generally not been sufficiently reduced in Member States where they are the highest**. Net savings in the private sector have declined especially for the household sector. Notes therefore that **vulnerabilities linked to still large stock imbalances persist**, and that the likely more modest economic growth, low interest rate environment and remaining uncertainties may imply a slower adjustment of existing imbalances or the materialisation of new risks.
- Agrees that to ensure stability, potential sources of domestic and external imbalances need to be addressed through **structural reforms**. Stresses that subdued productivity growth remains a particular concern in the current challenging economic context, and calls for structural reforms and investment to raise productivity and the growth potential, and policies to bring forward the correction of existing imbalances.

## 2. Implementation of MIP over time

### 2.1 Member States assessed as having macro-economic imbalances

From the MIP's inception until the 2015 round, an increasing number of countries had been both covered by in-depth reviews and classified as having excessive imbalances, but the trend seems to be reversed in the latest rounds[3]. Table 1 below shows that the number of Member States:

- subject to an **IDR** increased from 12 to 19 between 2012 and 2016, declined to 12 in 2018, were 13 in 2019 and stabilised at 13 in the context of the 2020 European Semester cycle;
- considered as experiencing **imbalances** rose from 12 to 16 between 2012 and 2015, fell to 11 in 2018, to 10 in 2019 and to 9 in 2020;
- considered as experiencing **excessive imbalances** increased from 0 to 6 between 2012 and 2017, but fell to 3 in 2018 and stabilized to 3 in 2019 and in 2020.

The Commission has not yet proposed to open the **Excessive Imbalance Procedure** (EIP): a Member State subject to this procedure would be classified in Table 1 as experiencing "*excessive imbalances with corrective action*" (see also Box 3 "Selected statements/positions on the corrective arm of MIP"). In 2016 the Commission had threatened to recommend to the Council an EIP (for Croatia and Portugal), taking into account the level of ambition of their National Reform Programmes. Based on its assessment of the policy commitments of both Member States and on the presumption that there would be a swift and full implementation of the reforms set out in their CSRs, the Commission eventually concluded that there was no need to step up the MIP. In 2019, the Commission has threatened the same for Italy.

**Table 1**: MIP stylized facts

| | Semester/MIP cycle | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| **(1)** Countries under adjustment programme | 4 | 5 | 4 | 2 | 1 | 1 | 1 | 0 | 0 |
| **(2)** Countries subject to IDR, *out of which*:* | 12 | 13 | 17 | 16 | 19 | 13 | 12 | 13 | 13 |
| *(2.1) Excessive imbalances with corrective action* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *(2.2) Excessive imbalances* | ***0*** | ***2*** | ***3*** | ***5*** | ***6*** | ***6*** | ***3*** | ***3*** | ***3*** |
| *(2.3) Imbalances* | ***12*** | ***11*** | ***11*** | ***11*** | ***7*** | ***6*** | ***8*** | ***10*** | ***9*** |
| *(2.4) No imbalances detected in IDR* | *0* | *0* | *3* | *0* | *6* | *1* | *1* | *0* | *1* |
| **(3)** Countries not subject to IDR (No imbalances) | 11 | 9 | 7 | 10 | 8 | 14 | 15 | 15 | 15 |
| **Total = (1) + (2) + (3)** | **27** | **27** | **28** | **28** | **28** | **28** | **28** | **28** | **28** |

Source: European Commission and EGOV.
Note: * The table refers to the streamlined categories applied from the 2016 cycle onwards.

Table 2 depicts the situation of Member States with respect to MIP since its inception in 2012. Italy has been experiencing *excessive imbalances* for seven consecutive years, and *Excessive imbalances* are identified in Cyprus for the fifth year in a row. It can also be noted that one Member State (Sweden) is experiencing *imbalances* since 2012, while the Netherlands since 2013 and Germany since 2014.

[3] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" that provides an overview of how the framework functions and how its application has evolved over time.

**Table 2:** Commission's conclusions under MIP

| No Imbalances | | | | | | | | | Imbalances | | | | | | | | | Excessive imbalances | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| CZ* | CZ* | CZ* | CZ* | BE | BE* | BE* | BE* | BE* | BE | BE | BE | BE | DE | DE | BG | BG | DE | | ES | **HR** | **BG** | **BG** | **BG** | **HR** | **IT** | **IT** |
| DE* | DE* | DK | DK* | CZ* | CZ* | CZ* | CZ* | BG | BG | BG | BG | DE | IE | IE | DE | DE | FR | | SI | **IT** | **FR** | **FR** | **FR** | **IT** | **CY** | **CY** |
| EE* | EE* | EE* | EE* | DK* | DK* | DK* | DK* | CZ* | DK | DK | DE | IE | ES | ES | FR | FR | HR | | | SI | **HR** | **HR** | **HR** | **CY** | **EL** | **EL** |
| LV* | LV* | LV* | LV* | EE | EE* | EE* | EE* | DK* | ES | FR | IE | ES | NL | NL | IE | HR | IE | | | | **IT** | **IT** | **IT** | | | |
| LT* | LT* | LT* | LT* | LV* | LV* | LV* | LV* | EE* | FR | IT | ES | HU | SI | SI | ES | IE | ES | | | | **PT** | **PT** | **PT** | | | |
| LU* | LU* | LU | LU* | LT* | LT* | LT* | LT* | LV* | IT | HU | FR | NL | FI | **SE** | NL | ES | NL | | | | | **CY** | **CY** | | | |
| MT* | AT* | MT | MT* | LU* | LU* | LU* | LU* | LT* | CY | MT | HU | RO | **SE** | | PT | NL | PT | | | | | | | | | |
| NL* | PL* | AT* | AT* | HU | HU* | HU* | HU* | LU* | HU | NL | NL | SI | | | **SE** | PT | RO | | | | | | | | | |
| AT* | SK* | PL* | PL* | MT* | MT* | MT* | MT* | HU* | SI | FI | FI | FI | | | | RO | **SE** | | | | | | | | | |
| PL* | | SK* | SK* | AT | AT* | AT* | AT* | MT* | FI | **SE** | **SE** | **SE** | | | | **SE** | | | | | | | | | | |
| SK* | | | | PL* | PL* | PL* | PL* | AT* | **SE** | UK | UK | UK | | | | | | | | | | | | | | |
| | | | | RO | RO* | RO* | SK* | PL* | UK | | | | | | | | | | | | | | | | | |
| | | | | SK* | SK* | SK* | SI* | SK* | | | | | | | | | | | | | | | | | | |
| | | | | UK | UK* | SI | FI* | SI* | | | | | | | | | | | | | | | | | | |
| | | | | | FI | FI* | UK* | FI* | | | | | | | | | | | | | | | | | | |
| | | | | | | UK | | UK* | | | | | | | | | | | | | | | | | | |

*Source: EGOV based on European Commission.*
*Note: The table refers only to the streamlined categories applied from the 2016 cycle onwards.*
*(*) Countries not considered at risk of macroeconomic imbalances, therefore not subject to in-depth reviews according to the AMR.*

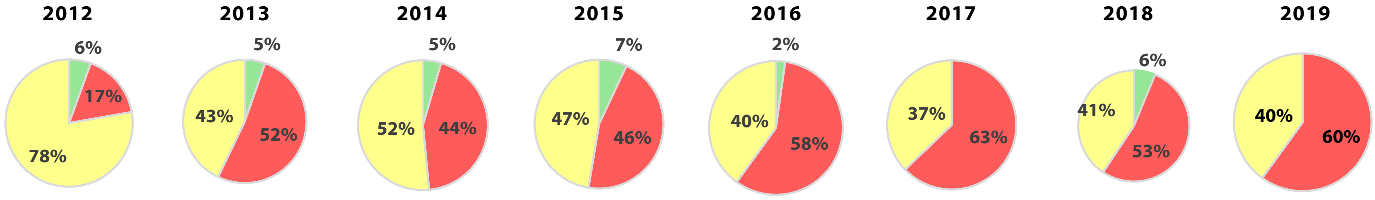
## 2.2 Implementation of CSRs underpinned by MIP

The credibility of the MIP, as part of the European Semester, depends *inter alia* on countries' implementation of the Country Specific Recommendations, which is measured by their implementation track record. The Commission applies a multi-annual perspective in its assessment of the implementation of the CSRs, "(...) *to account for the time needed for the full implementation of critical reforms*". The 2020 Communication on the CSRs presents an Annex on "Progress in the implementation of the Counry Specific Recommendations", that reads "*Since the start of the European Semester in 2011, some implementation progress has been achieved for more than two-thirds of the country-specific recommendations. Implementation continues on a stable path, as in previous years... However, reform implementation differs significantly across policy areas. In particular, Member States have made most progress over the past years in financial services, followed by progress on employment protection legislation. On the other hand, progress has been particularly slow on broadening the tax base, as well as on health and long-term care, with the healthcare systems being further challenged because of the COVID-19.*".

With regard to the implementation of the CSRs underpinned by the MIP, Figure 2 below shows the annual implementation rate of MIP-specific CSRs. The percentage of MIP-CSRs showing limited/no progress increased again in 2019, to 60%, after a slight decrease in 2018 and a continuous increase from 2014 to 2017. The percentage of MIP-CSRs showing full/substantial progress decrease again to none, after a slight increase in 2018[4].

[4] Macroeconomic imbalances typically take several years to correct, as different types of structural reforms produce the expected effects over variable time horizons; an IMF study shows that reforms in labour market may have a negative impact in the short term, while reforms in goods and services markets are visible in a shorter time lag. See also the Annex to the Commission Communcation on Country Reports, where the Commission considers the "multiannual assessment of the CSRs implementation" .

**Figure 2**: Annual implementation rate of CSRs based on MIP (2012-2019)




| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total MIP-CSRs | **36** | **56** | **66** | **57** | **45** | **35** | **32** | **40** |
| Member States | 12 | 13 | 14 | 16 | 13 | 12 | 11 | 13 |

*Source: EGOV based on European Commission assessments.*
Note: The assessment grid of CSRs implementation is as follows: full/substantial progress, some progress and limited/no progress.

Table 3 shows that Member States experiencing excessive imbalances during the 2019 cycle implemented recommendations underpinned by the MIP and joint SGP/MIP legal bases quite poorly; the progress in the implementation was assessed in the Country reports published by the Commission in February 2020. Greece showed some progress for both its recommendations; Italy showed some progress for three out of five CSRs; Cyprus implemented three out of five CSRs to a limited extent.

**Table 3:** Commission's assessment on the implementation of 2019 CSRs for Member States with excessive imbalances during 2019 MIP Cycle

| | Joint SGP and MIP legal base | MIP legal base | | | |
|---|---|---|---|---|---|
| EL | CSR1 | CSR2 | | | |
| IT | CSR1 | CSR2 | CSR3 | CSR4 | CSR5 |
| CY | CSR1 | CSR2 | CSR3 | CSR4 | CSR5 |

*Source: EGOV based on European Commission assessments.*
Note: The assessment grid of CSRs implementation is as follows: full/substantial progress, some progress and limited/no progress.

Annex 4 presents the 2019 MIP-related CSRs and the assessment of their implementation (see a separate EGOV document for a presentation of all the 2018 CSRs, the Commission's assessments of their implementation, the 2019 CSRs and theis implementation assessment).

### Box 3: Selected statements/positions on the corrective arm of MIP

**ECOFIN Council**

The Council, in its conclusions of May 2020, "*Reiterates that **the Macroeconomic Imbalance Procedure should be used to its full potential** and in a transparent and consistent way, ensuring Member States' ownership of the procedure, including the **activation of the excessive imbalance procedure** where appropriate. Maintains that whenever the Commission concludes that a Member State is experiencing excessive imbalances, but does not propose to the Council the opening of the excessive imbalance procedure, it should explain clearly and publicly its reasons.*". Similar text was included in the ECOFIN conclusions of February 2020, May 2019, January 2019, January and March 2018, January and May 2017.

**European Central Bank**

In its publication of June 2018, the ECB stated "*from 2015 to 2017 three to four countries were continuously included in the excessive imbalance group. One country has been assessed as having had excessive imbalances for 5 years in a row. Despite the unchanged assessment, these countries continued to be part of the preventive arm of the MIP. **A situation with persistently excessive imbalances warrants a strong policy response, as past experience has shown that the correction of imbalances accumulated over a long period of time is very costly**. This is the reason why the ECB has consistently argued that the MIP tools – including the full corrective arm of the procedure – should be fully employed in relation to those countries with excessive imbalances... The use of such tools is desirable not only in order to increase the economic prospects of the relevant country itself, but also to help facilitate economic adjustment processes inside the euro area and enhance the resilience of the euro area. It is thus in the interest of the euro area as a whole, in particular given the fact that a tool, the EIP, has already been set up to deal with those cases.* "

In July 2017, the ECB had called again on the Commission to make use of the MIP corrective arm. "***The number of CSRs has been reduced for countries with excessive imbalances** and in several cases **the level of urgency has been reduced**, insofar as the CSRs contain significantly fewer deadlines compared with last year's recommendations**. This comes despite the limited implementation of CSRs for countries with excessive imbalances**. Given the difficulties of strengthening reform implementation in the context of the preventive arm of the macroeconomic imbalance procedure, **there seems to be a strong case for applying the corrective arm of this procedure for all countries with excessive imbalances.** This tool, which has not been used so far, offers a well-defined process ensuring greater traction on reform implementation for the most vulnerable Member States.*" Previous similar statements were published in March 2017, March and February 2016.

**The Five Presidents Report**

The Five President Report on "Completing Europe's Economic and Monetary Union" of June 2015 affirms the need to use the MIP "*to its full potential. This requires action on two fronts in particular:*

- It should be used not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. **It should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation**.
- The procedure should also better capture imbalances for the euro area as a whole, not just for each individual country. For this, it needs to continue to focus on correcting harmful external deficits, given the risk they pose to the smooth functioning of the euro area ..."

**IMF**

In the context of the 2017 Art. IV consultation report on the euro area, "*IMF Directors reiterated their call for **stricter enforcement of the Macroeconomic Imbalances Procedure** combined with incentives for structural reforms, such as targeted support from central funds and outcome based benchmarks.*" The staff report reads (p. 18) "*The weak implementation of CSRs in most countries, including by those six countries identified with excessive imbalances under the MIP, suggests that the **EU instruments are currently not being used effectively**. To build credibility, stronger enforcement of the governance framework is needed.*" The accompanying footnote reads "*While considering progress toward correcting excessive external imbalances in February 2017, the **EC has again used its discretionary powers not to open the excessive imbalances procedure in six cases**, despite these countries having made only 'limited' or 'some' progress in implementing CSRs.*"

**European Court of Auditor**

The Auditors' Report on the MIP notes that the Commission has never recommended activating the excessive imbalance procedure, despite several member States having been identified with excessive imbalances over a prolonged period (see also Box 4).

**Box 4: The Special Report of the European Court of Auditors on the MIP**

On 23 January 2018, the European Court of Auditors (ECA) published its Special Report on the Macroeconomic Imbalance Procedure.

The ECA examined the Commission's implementation of the Macroeconomic Imbalance Procedure, on the basis - *inter alia* - on stakeholders' opinion and detailed analysis of four Member States (Bulgaria, Slovenia, France and Spain).

The ECA found that although the MIP is generally well designed, **the Commission is not implementing it in a way that would ensure effective prevention and correction of imbalances**. More specifically:

- the classification of Member States with imbalances lacks transparency;
- the Commission's in-depth analysis - despite being of a good standard - has become less visible;
- the country specific recommendations do not stem from identified imbalances;
- there is lack of public awareness of the procedure and its implications.

Furthermore, the ECA pointed to the political rather than technical process on the opening of the EIP (paras 61-66) and addresses the weakness of the MIP scoreboard (paras 88-96).

The ECA made six Recommendations to the Commission, aimed at to substantially improve certain aspects of its management and to give greater prominence to the MIP. They can be summarised as follows:

1. clearly link MIP country specific recommendations to specific macroeconomic imbalances;
2. in its IDRs, clearly characterise the severity of the imbalances that Member States are facing. The Commission should, unless there are specific circumstances, recommend activating an **excessive imbalance procedure** when there is evidence that a Member State is facing excessive imbalances. Propose an amendment to the MIP regulation on this process;
3. separate the IDR from the Country report, to allow for a comprehensive analysis of the macroeconomic imbalances;
4. use the **MIP to make fiscal recommendations** to Member States when fiscal policy directly affects external imbalances and competitiveness. MIP-CSRs should be made consistent with recommendations for the euro area, including on the overall fiscal stance;
5. give greater prominence to the MIP by improving all communication aspects. When it assesses imbalances as excessive, make the relevant **Commissioners available to Member State parliaments** to explain the MIP related policy recommendations.

The publication includes a detailed **reply by the Commission** to each section of the ECA Reports'. As far as the ECA's recommendations are concerned, the Commission accepts all the Recommendations, with the exception of 2(ii), on the codification of the definition of imbalances or excessive imbalances; and 2(iv) on the amendment of the MIP regulation concerning the opening of the EIP.

The President of the ECA presented the report at the ECOFIN Council of 13 March 2018, which drew its conclusions. The Council welcomed that the Commission accepted most of the ECA's recommendations.

In its conclusions of the meeting of January 2019, the Council invited the Commission to take note of the ECA recommendations when the Commission will **review and report on the application of the MIP** at the latest by December 2019, in accordance with Regulation 1176/2011 on the MIP.



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

# Annex 1: The 2020 MIP scoreboard for the identification of possible macro-economic imbalances (reference year 2018)

| | External imbalances and competitiveness | | | | | Internal imbalances | | | | | | Employment Indicators | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year 2018** | **Current Account Balance** % of GDP 3 year average | **Net International Investment Position** % of GDP | **Real Effective Exchange Rate with HICP deflator** 3 year % change | **Export Market Shares** 5 year % change | **Nominal ULC (2010=100)** 3 year % change | **House Prices index deflated** 1 year % change | **Private Sector Credit Flow** % of GDP | **Private Sector Debt,** consolidated % of GDP | **General Government Gross Debt** % of GDP | **Unemployment rate** 3 year average | **Total Financial Sector Liabilities, non-consolidated** 1 year % change | **Activity rate** % of total pop. aged 15-64 3 year change | **Long term unemployment rate** % of active pop. aged 15-74 3 year change | **Youth unemployment rate** % of active pop. aged 15-24 3 year change |
| **Thresholds** | **-4/+6%** | **-35%** | **±5% (EA) ±11% (non-EA)** | **-6%** | **+9% (EA) 12% (non-EA)** | **+6%** | **14%** | **133%** | **60%** | **10%** | **16.5%** | **-0.2 pp** | **0.5 pp** | **2 pp** |
| **BE** | 0.3 | 41.3 | 6.9 | -1.5 | 3.7 | 1.0 | 0.8 | 178.5 | 100.0 | 7.0 | -2.9 | 1.0 | -1.5 | -6.3 |
| **BG** | 4.0 | -35.2 | 3.9 | 13.4 | 18.3 | 4.5 | 3.9 | 95.0 | 22.3 | 6.3 | 6.8 | 2.2 | -2.6 | -8.9 |
| **CZ** | 1.2 | -23.5 | 11.0 | 11.9 | 13.5 | 6.1p | 5.3 | 70.7 | 32.6 | 3.0 | 7.4 | 2.6 | -1.7 | -5.9 |
| **DK** | 7.5 | 48.5 | 2.6 | -1.5 | 1.6 | 3.5 | 3.5 | 198.3 | 34.2 | 5.6 | -4.1 | 0.9 | -0.6 | -1.6 |
| **DE** | 8.0 | 62.0 | 5.3 | 3.1 | 5.6 | 5.1 | 6.5 | 102.1 | 61.9 | 3.8 | 2.0 | 1.0 | -0.6 | -1.0 |
| **EE** | 2.1 | -27.7 | 7.7 | 0.7 | 14.3 | 2.1 | 3.7 | 101.5 | 8.4 | 6.0 | 6.9 | 2.4 | -1.1 | -1.2 |
| **IE** | 2.3 | -165.0 | 2.3 | 77.4 | -2.8 | 8.3 | -7.8 | 223.2 | 63.6 | 7.0 | 5.1 | 0.8 | -3.2 | -6.4 |
| **EL** | -2.2 | -143.3 | 3.6 | 6.8 | 1.4 | 1.3e | -1.1 | 115.3 | 181.2 | 21.5 | -5.0 | 0.4 | -4.6 | -9.9 |
| **ES** | 2.6 | -80.4 | 4.1 | 4.6 | 0.7 | 5.3 | 0.4 | 133.5 | 97.6 | 17.4 | -2.2 | -0.6 | -5.0 | -14.0 |
| **FR** | -0.6 | -16.4 | 4.5 | -0.2 | 2.4 | 1.5 | 7.9 | 148.9 | 98.4 | 9.5 | 1.6 | 0.6 | -0.8 | -3.9 |
| **HR** | 2.4 | -57.9 | 4.2 | 22.9 | -2.1 | 4.6 | 2.3 | 93.9 | 74.8 | 10.9 | 4.6 | -0.6 | -6.8 | -19.0 |
| **IT** | 2.6 | -4.7 | 3.3 | 0.3 | 2.7 | -1.6 | 1.6 | 107.0 | 134.8 | 11.2 | -0.1 | 1.6 | -0.7 | -8.1 |
| **CY** | -4.6 | -120.8 | 1.8 | 16.6 | -0.4 | 0.2 | 8.4 | 282.6 | 100.6 | 10.8 | 0.3 | 1.1 | -4.1 | -12.6 |
| **LV** | 0.6 | -49.0 | 4.9 | 8.6 | 14.7 | 6.6 | -0.2 | 70.3 | 36.4 | 8.6 | -3.0 | 2.0 | -1.4 | -4.1 |
| **LT** | -0.1 | -31.0 | 6.4 | 3.5 | 16.5 | 4.6 | 4.3 | 56.4 | 34.1 | 7.1 | 8.2 | 3.2 | -1.9 | -5.2 |
| **LU** | 4.9 | 59.8 | 3.3 | 16.7 | 7.9 | 4.9 | -0.5 | 306.5 | 21.0 | 5.8 | -2.0 | 0.2 | -0.5 | -2.5 |
| **HU** | 2.1 | -52.0 | 2.0 | 8.4 | 12.4 | 10.9 | 4.3 | 69.3 | 70.2 | 4.3 | -9.2 | 3.3 | -1.7 | -7.1 |
| **MT** | 8.9 | 62.7 | 4.9 | 24.0 | 3.3 | 5.1 | 7.5 | 129.2 | 45.8 | 4.1 | 2.3 | 5.9 | -1.3 | -2.5 |
| **NL** | 9.9 | 70.7 | 3.2 | 1.7 | 3.0 | 7.4 | 4.5 | 241.6 | 52.4 | 4.9 | -3.3 | 0.7 | -1.6 | -4.1 |
| **AT** | 2.2 | 3.7 | 4.8 | 3.9 | 4.7 | 2.5 | 3.9 | 121.0 | 74.0 | 5.5 | 1.7 | 1.3 | -0.3 | -1.2 |
| **PL** | -0.5 | -55.8 | 0.1 | 25.7 | 8.0 | 4.9 | 3.4 | 76.1 | 48.9 | 5.0 | 3.0 | 2.0 | -2.0 | -9.1 |
| **PT** | 0.9 | -105.6 | 3.1 | 9.4 | 5.3 | 8.9 | 0.8 | 155.4 | 122.2 | 9.1 | 0.5 | 1.7 | -4.1 | -11.7 |
| **RO** | -3.3 | -44.1 | -0.7 | 23.7 | 29.6 | 1.8 | 1.9 | 47.4 | 35.0 | 5.0 | 3.3 | 1.7 | -1.2 | -5.5 |
| **SI** | 5.5 | -18.9 | 2.0 | 20.4 | 6.1 | 7.4 | 1.3 | 72.8 | 70.4 | 6.6 | 4.1 | 3.2 | -2.5 | -7.5 |
| **SK** | -2.4 | -68.1 | 2.5 | 3.2 | 10.9 | 5.0 | 2.0 | 90.9 | 49.4 | 8.1 | 8.9 | 1.5 | -3.5 | -11.6 |
| **FI** | -1.4 | -2.0 | 3.0 | -3.0 | -2.6 | -0.2 | 1.6 | 142.1 | 59.0 | 8.3 | 19.9 | 2.1 | -0.7 | -5.4 |
| **SE** | 2.8 | 10.3 | -4.0 | -6.3 | 7.6 | -3.0 | 9.0 | 200.0 | 38.8 | 6.6 | -2.9 | 1.0 | -0.4 | -3.0 |
| **UK** | -4.3 | -10.5 | -13.0 | -3.7 | 7.9 | 0.7 | 4.4 | 163.3 | 85.9 | 4.4 | -0.8 | 1.0 | -0.5 | -3.3 |

Source: 2020 AMR. Boxes shaded in grey indicate values outside the threshold. A dedicated Eurostat website presents the latest available figures

# Annex 2: 2019 Country Specific Recommendations underpinned by MIP and their implementation assessment

These tables are extracted from the detailed EGOV document "Country Specific recommendations for 2018 and 2019 - A tabular comparison and overview of implementation". For each concerned Member State, the tables present only the MIP-related CSRs and its general implementation assessment.

| BG | 2019 CSRs<br>SGP: -<br>MIP: CSR 2<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 2. Ensure the stability of the banking sector by reinforcing supervision, promoting adequate valuation of assets, including bank collateral, and promoting a functioning secondary market for non-performing loans. Ensure effective supervision and the enforcement of the AML framework. Strengthen the non-banking financial sector by effectively enforcing risk-based supervision, the recently adopted valuation guidelines and group-level supervision. Implement the forthcoming roadmap tackling the gaps identified in the insolvency framework. Foster the stability of the car insurance sector by addressing market challenges and remaining structural weaknesses.<br>**Some Progress.** |

| DE | 2019 CSRs<br>MIP: CSR 1, 2<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. While respecting the MTO, use fiscal and structural policies to achieve a sustained upward trend in private and public investment, in particular at regional and municipal level. Focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities. Shift taxes away from labour to sources less detrimental to inclusive and sustainable growth. Strengthen competition in business services and regulated professions.<br>**Limited Progress.** |
| | 2. Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners. Take measures to safeguard the long-term sustainability of the pension system, while preserving adequacy. Strengthen the conditions that support higher wage growth, while respecting the role of the social partners. Improve educational outcomes and skills levels of disadvantaged groups.<br>**Some Progress.** |

| IE | 2019 CSRs<br>SGP: -<br>MIP: CSR 1, 3<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Achieve the MTO objective in 2020. Use windfall gains to accelerate the reduction of the general government debt ratio. Limit the scope and number of tax expenditures, and broaden the tax base. Continue to address features of the tax system that may facilitate aggressive tax planning, and focus in particular on outbound payments. Address the expected increase in age-related expenditure by making the healthcare system more cost-effective and by fully implementing pension reform plans.<br>**Limited Progress** (this overall assessment of country-specific recommendation 1 does not include an assessment of compliance with the Stability and Growth Pact) |
| | 3. Focus investment-related economic policy on low carbon and energy transition, the reduction of greenhouse gas emissions, sustainable transport, water, digital infrastructure and affordable and social housing, taking into account regional disparities. Implement measures, including those in the Future Jobs strategy, to diversify the economy and improve the productivity of Irish firms — SMEs in particular — by using more direct funding instruments to stimulate research and innovation and by reducing regulatory barriers to entrepreneurship.<br>**Some Progress.** |

| EL | 2019 CSRs<br>MIP: CSR 1, 2<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018.<br>**Some Progress.**<br>The implementation of this CSR is monitored under enhanced surveillance. Greece has taken the necessary actions to achieve all specific reform commitments for mid-2019 and efforts towards meeting the end-2019 commitments are ongoing.This overall assessment of country-specific recommendation 1 does not include an assessment of compliance with the Stability and Growth Pact. The compliance assessment with the Stability and Growth Pact will be included in Spring when final data for 2019 will be available. |
| | 2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, R&D, education, skills, employability, health, and the renewal of urban areas, taking into account regional disparities and the need to ensure social inclusion.<br>**Some Progress.**<br>In terms of horizontal investment-conducive economic policies, Greece has taken important steps. Since the adoption of the CSR, the government has adopted several pieces of legislation to foster the transition to a 'digital state' and to promote private investment, notably through the Development Law of last October. The latter paved the way for a streamlining of the investment licencing procedures and introduced changes in spatial planning to accelerate major investment projects. The law also aims to increase clarity and transparency on land use rules to investors through the introduction of a 'Single Digital Map'. Meanwhile, in the area of land use, reforms are advancing with the completion of forest maps for nearly 95% of the country and continued work in cadastral mapping, while in the area of justice, reforms have been slow overall. Efforts to fight corruption are ongoing. The authorities have also taken steps towards a coordinated approach to promoting the outward orientation of the Greek economy and attracting foreign investment, and have greatly strengthened momentum in the privatisation process that could have a positive impact on investment.<br>In quantitative terms, investment appears to be slowly recovering following a protracted contraction period. During the first half of 2019, investment increased by a mere 0.7%, as compared to an average 4.7% in the euro area. In the second quarter of 2019, it remained broadly flat (-0.1%) compared to the same period last year. Looking backwards, investment (as a share of GDP) fell sharply during the crisis years 2007-2014 and bottomed out only in 2015 to reach 11.1 % of GDP in 2018. In what follows, the analysis reviews public investment trends for the priority areas identified in the second CSR |

| ES | 2019 CSRs<br>MIP: CSR 1, 2, 3, 4<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,9 % in 2020, corresponding to an annual structural adjustment of 0,65 % of GDP. Take measures to strengthen the fiscal and public procurement frameworks at all levels of government. Preserve the sustainability of the pension system. Use windfall gains to accelerate the reduction of the general government debt ratio.<br>**Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact;). |
| | 2. Ensure that employment and social services have the capacity to provide effective support. Foster transitions towards open-ended contracts, including by simplifying the system of hiring incentives. Improve support for families, reduce fragmentation of national unemployment assistance and address coverage gaps in regional minimum income schemes. Reduce early school leaving and improve educational outcomes, taking into account regional disparities. Increase cooperation between education and businesses with a view to improving the provision of labour market relevant skills and qualifications, in particular for information and communication technologies.<br>**Limited Progress.** |
| | 3. Focus investment-related economic policy on fostering innovation, resource and energy efficiency, upgrading rail freight infrastructure and extending electricity interconnections with the rest of the Union, taking into account regional disparities. Enhance the effectiveness of policies supporting research and innovation.<br>**Limited Progress.** |
| | 4. Further the implementation of the Law on Market Unity by ensuring that, at all levels of government, rules governing access to and exercise of economic activities, in particular for services, are in line with the principles of that Law and by improving cooperation between administrations.<br>**Limited Progress.** |

| FR | 2019 CSRs<br>MIP: CSR 1, 2, 3, 4<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Ensure that the nominal growth rate of net primary expenditure does not exceed 1,2 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfalls gains to accelerate the reduction of the general government debt ratio. Achieve expenditure savings and efficiency gains across all sub-sectors of the government, including by fully specifying and monitoring the implementation of the concrete measures needed in the context of Public Action 2022. Reform the pension system to progressively unify the rules of the different pension regimes, with the view to enhance their fairness and sustainability.<br>**Limited Progress** (this overall assessment of CSR1 does not include a compliance assessment of compliance with the Stability and Growth Pact. |
| | 2. Foster labour market integration for all job seekers, ensure equal opportunities with a particular focus on vulnerable groups including people with a migrant background and address skills shortages and mismatches.<br>**Limited Progress.** |
| | 3. Focus investment-related economic policy on research and innovation (while improving the efficiency of public support schemes, including knowledge transfer schemes), renewable energy, energy efficiency and interconnections with the rest of the Union, and on digital infrastructure, taking into account territorial disparities.<br>**Some Progress.** |
| | 4. Continue to simplify the tax system, in particular by limiting the use of tax expenditures, further removing inefficient taxes and reducing taxes on production. Reduce regulatory restrictions, in particular in the services sector, and fully implement the measures to foster the growth of firms.<br>**Some Progress.** |

| HR | 2019 CSRs<br>MIP: CSR 1, 2, 3, 4<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Reinforce the budgetary framework and monitoring of contingent liabilities at central and local level. Reduce the territorial fragmentation of the public administration and streamline the functional distribution of competencies.<br>**Limited Progress.** |
| | 2. Deliver on the education reform and improve both access to education and training at all levels and their quality and labour market relevance. Consolidate social benefits and improve their capacity to reduce poverty. Strengthen labour market measures and institutions and their coordination with social services. In consultation with the social partners, introduce harmonised wage-setting frameworks across the public administration and public services.<br>**Some Progress.** |
| | 3. Focus investment-related economic policy on research and innovation, sustainable urban and railway transport, energy efficiency, renewables and environmental infrastructure, taking into account regional disparities. Increase the administration's capacity to design and implement public projects and policies.<br>**Limited Progress.** |
| | 4. Improve corporate governance in State-owned enterprises and intensify the sale of such enterprises and non-productive assets. Enhance the prevention and sanctioning of corruption, in particular at the local level. Reduce the duration of court proceedings and improve electronic communication in courts. Reduce the most burdensome parafiscal charges and excessive product and services market regulation.<br>**Limited Progress.** |

| IT | 2019 CSRs<br>SGP: CSR 1<br>MIP: CSR 1, 2, 3, 4, 5<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Ensure a nominal reduction of net primary government expenditure of 0,1 % in 2020, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Fight tax evasion, especially in the form of omitted invoicing, including by strengthening the compulsory use of e-payments including through lower legal thresholds for cash payments. Implement fully past pension reforms to reduce the share of pensions in public spending and create space for other social and growth-enhancing spending.<br>**Some Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact). |
| | 2. Step up efforts to tackle undeclared work. Ensure that active labour market and social policies are effectively integrated and reach out in particular to young people and vulnerable groups. Support women's participation in the labour market through a comprehensive strategy, including through access to quality childcare and long-term care. Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills.<br>**Limited Progress.** |
| | 3. Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services. Address restrictions to competition, particularly in the retail sector and in business services, also through a new annual competition law.<br>**Some Progress.** |
| | 4. Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator and with a special focus on insolvency regimes. Improve the effectiveness of the fight against corruption by reforming procedural rules to reduce the length of criminal trials.<br>**Limited progress.** |
| | 5. Foster bank balance sheet restructuring, in particular for small and medium-sized banks, by improving efficiency and asset quality, continuing the reduction of non-performing loans, and diversifying funding. Improve non-bank financing for smaller and innovative firms.<br>**Some Progress.** |

| CY | 2019 CSRs<br>SGP: -<br>MIP: CSR 1, 2, 3, 4, 5<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of State-owned entities and local governments. Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments by multinationals.<br>**Limited Progress.** |
| | 2. Facilitate the reduction of non-performing loans including by setting up an effective governance structure for the State-owned asset management company, taking steps to improve payment discipline and strengthening the supervision of credit-acquiring companies. Strengthen supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension-fund supervisors.<br>**Limited Progress.** |
| | 3. Complete reforms aimed at increasing the effectiveness of the public employment services and reinforce outreach and activation support for young people. Deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training, and affordable childhood education and care. Take measures to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability.<br>**Some Progress.** |
| | 4. Focus investment-related economic policy on sustainable transport, environment, in particular waste and water management, energy efficiency and renewable energy, digitalisation, including digital skills, and research and innovation, taking into account territorial disparities within Cyprus. Adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences. Improve access to finance for SMEs, and resume the implementation of privatisation projects.<br>**Limited Progress.** |
| | 5. Step up efforts to improve the efficiency of the judicial system, including the functioning of administrative justice and revising civil procedures, increasing the specialisation of courts and setting up an operational e-justice system. Take measures to strengthen the legal enforcement of claims and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights. Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of law enforcement.<br>**Limited Progress.** |

| NL | 2019 CSRs<br>MIP: CSR 1, 3<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Reduce the debt bias for households and the distortions in the housing market, including by supporting the development of the private rental sector. Ensure that the second pillar of the pension system is more transparent, inter-generationally fairer and more resilient to shocks. Implement policies to increase household disposable income, including by strengthening the conditions that support wage growth, while respecting the role of social partners. Address features of the tax system that may facilitate aggressive tax planning, in particular by means of outbound payments, notably by implementing the announced measures.<br>**Some Progress.** |
| | 3. While respecting the medium-term budgetary objective, use fiscal and structural policies to support an upward trend in investment. Focus investment-related economic policy on research and development in particular in the private sector, on renewable energy, energy efficiency and greenhouse gas emissions reduction strategies and on addressing transport bottlenecks.<br>**Some Progress.** |

| PT  | 2019 CSRs<br>SGP: CSR 1<br>MIP: CSR 1, 2, 3, 4<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals. Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring.<br>**Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact). |
| | 2. Adopt measures to address labour market segmentation. Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market. Increase the number of higher education graduates, particularly in science and information technology. Improve the effectiveness and adequacy of the social safety net.<br>**Some Progress.** |
| | 3. Focus investment-related economic policy on research and innovation, railway transport and port infrastructure, low carbon and energy transition and extending energy interconnections, taking into account regional disparities.<br>**Limited Progress.** |
| | 4. Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings. Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing. Develop a roadmap to reduce restrictions in highly regulated professions. Increase the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings.<br>**Limited Progress.** |

| RO  | 2019 CSRs<br>SGP: CSR 1<br>MIP: CSR 1, 2, 3, 5<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Ensure compliance with the Council recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective. Ensure the full application of the fiscal framework. Strengthen tax compliance and collection.<br>**Limited Progress** (this overall assessment of CSR 1 does not include an assessment of compliance with the Stability and Growth Pact). |
| | 2. Safeguard financial stability and the robustness of the banking sector. Ensure the sustainability of the public pension system and the long-term viability of the second pillar pension funds.<br>**Some Progress.** |
| | 3. Improve the quality and inclusiveness of education, in particular for Roma and other disadvantaged groups. Improve skills, including digital, notably by increasing the labour market relevance of vocational education and training and higher education. Increase the coverage and quality of social services and complete the minimum inclusion income reform. Improve the functioning of social dialogue. Ensure minimum wage setting based on objective criteria, consistent with job creation and competitiveness. Improve access to and cost-efficiency of healthcare, including through the shift to outpatient care.<br>**Limited Progress.** |
| | 5. Ensure that legislative initiatives do not undermine legal certainty by improving the quality and predictability of decision-making, including by appropriate stakeholder consultations, effective impact assessments and streamlined administrative procedures. Strengthen the corporate governance of state-owned enterprises.<br>**No Progress.** |

| SE | 2019 CSRs<br>SGP: -<br>MIP: CSR 1<br>Assessment of implementation of 2019 CSRs |
|---|---|
| | 1. Address risks related to high household debt by gradually reducing the tax deductibility of mortgage interest payments or increasing recurrent property taxes. Stimulate investment in residential construction where shortages are most pressing, in particular by removing structural obstacles to construction. Improve the efficiency of the housing market, including by introducing more flexibility in rental prices and revising the design of the capital gains tax.<br>**Limited Progress.** |

# Annex 3: Commission proposals for 2020 Country Specific Recommendations underpinned by MIP

These tables are extracted from the detailed EGOV document "Commission's Recommendations for Country Specific recommendations for 2020". For each concerned Member State, the tables present only the CSRs underpinned by the MIP. The CSRs adopted by the Council on 20 July 2020 do not differ from those porposed by the Commission.

| DE | MIP: CSR 2 |
|---|---|
| | 2. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on sustainable transport, clean, efficient and integrated energy systems, digital infrastructure and skills, housing, education and research and innovation. Improve digital public services across all levels and foster the digitalisation in small and medium-sized enterprises. Reduce the regulatory and administrative burden for businesses. |

| IE | MIP: CSRs 1,2,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve accessibility of the health system and strengthen its resilience, including by responding to health workforce's needs and ensuring universal coverage to primary care. |
| | 2. Support employment through developing skills. Address the risk of digital divide, including in the education sector. Increase the provision of social and affordable housing. |
| | 4. Broaden the tax base. Step up action to address features of the tax system that facilitate aggressive tax planning, including on outbound payments. Ensure effective supervision and enforcement of the anti-money laundering framework as regards professionals providing trust and company services. |

| EL | MIP: CSRs 1,2,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure adequate and equal access to healthcare. |
| | 2. Mitigate the employment and social impacts of the crisis, including by implementing measures such as short-time work schemes and ensuring effective activation support. |
| | 3. Swiftly deploy measures to provide liquidity and continued flow of credit and other financing to the economy, focusing in particular on small and medium-sized enterprises most affected by crisis. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on safe and sustainable transport and logistics, clean and efficient production and use of energy, environmental infrastructure and very-high capacity digital infrastructure and skills. Improve the effectiveness and digitalisation of the public administration and promote digital transformation of businesses. |
| | 4. Continue and complete reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018 to restart a sustainable economic recovery, following the gradual easing up of constraints imposed due to the COVID-19 outbreak. |

| ES | MIP: CSRs 1,2,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the health system's resilience and capacity, as regards health workers, critical medical products and infrastructure. |
| | 2. Support employment through arrangements to preserve jobs, effective hiring incentives and skills development. Reinforce unemployment protection, notably for atypical workers. Improve coverage and adequacy of minimum income schemes and family support, as well as access to digital learning. |
| | 4. Improve coordination between different levels of government and strengthen the public procurement framework to support recovery in an efficient manner. |

| FR | MIP: CSRs 1,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system by ensuring adequate supplies of critical medical products and a balanced distribution of health workers, and by investing in e-Health. |
| | 3. Ensure the effective implementation of measures supporting the liquidity of firms, in particular for small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on sustainable transport, clean and efficient production and use of energy, energy and digital infrastructures as well as research and innovation. |

| HR | MIP: CSRs 1,2,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Enhance the resilience of the health system. Promote balanced geographical distribution of health workers and facilities, closer cooperation between all levels of administration and investments in e-health. |
| | 2. Strengthen labour market measures and institutions and improve the adequacy of unemployment benefits and minimum income schemes. Increase access to digital infrastructure and services. Promote the acquisition of skills. |
| | 3. Maintain measures to provide liquidity to small and medium-sized enterprises and the self-employed. Further reduce parafiscal charges and restrictions in goods and services market regulation. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on environmental infrastructure, sustainable urban and rail transport, clean and efficient production and use of energy and high speed broadband. |
| | 4. Reinforce the capacity and efficiency of the public administration to design and implement public projects and policies at central and local levels. Improve the efficiency of the judicial system. |

| IT | MIP: CSRs 1,2,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system, in the areas of health workers, critical medical products and infrastructure. Enhance coordination between national and regional authorities. |
| | 2. Provide adequate income replacement and access to social protection, notably for atypical workers. Mitigate the employment impact of the crisis, including through flexible working arrangements and active support to employment. Strengthen distance learning and skills, including digital ones. |
| | 3. Ensure effective implementation of measures to provide liquidity to the real economy, including to small and medium-sized enterprises, innovative firms and the self-employed, and avoid late payments. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, research and innovation, sustainable public transport, waste and water management as well as reinforced digital infrastructure to ensure the provision of essential services. |
| | 4. Improve the efficiency of the judicial system and the effectiveness of public administration. |

| CY | MIP: CSRs 1,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions. |
| | 3. Secure adequate access to finance and liquidity, especially for small and medium sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation, research and innovation. |
| | 4. Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals. Improve the efficiency and digitalisation of the judicial system and the public sector. |

| NL | MIP: CSR 3 |
|---|---|
| | 3. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on digital skills development, sustainable infrastructure and clean and efficient production and use of energy as well as mission-oriented research and innovation. |

| PT | MIP: CSRs 1,2,3,4 |
|---|---|
| | 1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience of the health system and ensure equal access to quality health and long-term care. |
| | 2. Support employment and prioritise measures to preserve jobs. Guarantee sufficient and effective social protection and income support. Support the use of digital technologies to ensure equal access to quality education and training and to boost firms' competitiveness. |
| | 3. Implement the temporary measures aimed at securing access to liquidity for firms, in particular small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, rail infrastructure and innovation. |
| | 4. Increase the efficiency of administrative and tax courts. |

| RO | MIP: CSR 4 |
|---|---|
| | 4. Improve the quality and effectiveness of public administration and the predictability of decision-making, including through an adequate involvement of social partners. |

## Annex 4: Procedural changes to the MIP

In line with its Communication "On steps towards completing Economic and Monetary Union" of October 2015, the European Commission introduced **several changes** in the Semester, aimed at fostering the integration of the euro area and national dimensions, strengthening the focus on employment, social performance, investment and competitiveness as well as at improving the whole procedure transparency[5]. Specifically on MIP, the Commission stated how "*experience suggests that implementation of MIP can be improved in a number of ways*", and noted that the six levels scale of imbalances used up to 2015 to classify Member States in the context of the MIP was not transparent.

In 2016, the Commission:

- introduced in the MIP scoreboard **three new employment-related indicators,** namely activity rate, long-term and youth unemployment[6].
- introduced some **changes in the calendar** of the Semester and the MIP, namely:
  - it anticipated to November the draft Council recommendations for the euro area;
  - it anticipated the publication of the IDRs to February and integrated them in the Country reports. These reports constitute the basis for dialogues between the Commission and the Member States before submission of their National Reform Programmes, as well as for the preparations of the CSRs. They provide also an assessment of the **implementation of the previous CSRs**[7].
- **reduced the number of MIP categories** from six to four, as shown in Table A.1.

Each of the IDRs takes into account **spill-overs** to other countries, especially for the euro area countries, and systemic issues. The IDRs also include the "**MIP assessment matrix"**, which summarises the main findings and focuses on imbalances and adjustment issues relevant for the MIP.

**Table A.1**: Categorisation of imbalances in the macroeconomic imbalance procedure

| Previous categories (6) | Streamlined categories (4) |
|---|---|
| No imbalances | No imbalances |
| Imbalances, which require policy action and monitoring<br>Imbalances, which require decisive policy action and monitoring<br>Imbalances, which require decisive policy action and specific monitoring | Imbalances |
| Excessive imbalances, which require decisive policy action and specific monitoring | Excessive imbalances |
| Excessive imbalances with corrective action* | Excessive imbalances with corrective action* |

Source: European Commission.
* Corrective action consists in the opening of the Excessive Imbalance Procedure

Table A.1 shows the categorisation of possible macroeconomic imbalances introduced in March 2016. All countries with imbalances are subject to specific monitoring, that is tighter for countries with excessive imbalances and consists in dialogues with the national authorities, expert missions and regular progress reports, which should also help monitoring of the implementation of the CSRs in the Member

[5] See also the Commission publication "The Macroeconomic Imbalance Procedure - Rationale, Process, Application: a Compendium" of November 2016, which provides an overview of how the framework functions and how its application has evolved over time.

[6] The ECOFIN Council, on 16 January 2016 "*expressed concern about the inclusion of three additional employment indicators to the main scoreboard, given the need to preserve the effectiveness of the scoreboard as an early warning device... Underlined that social and labour market indicators are not relevant for identifying macro-financial risks and developments in these indicators cannot trigger steps in the MIP process*".

[7] Prior to the streamlined Semester, only the in-depth reviews were published in March, while the Country Reports (previously called Staff Working Documents) were issued in May/June. The publication of a single comprehensive report at an earlier stage is expected to help increase the transparency of the European Semester, as well as its integration in the National reform Programmes.

States concerned. Countries in the category 'excessive imbalances with corrective action' are subject to the excessive imbalance procedure (EIP) entailing policy recommendations to remedy the imbalances and follow-up through a corrective action plan.

In 2018, the Commission introduced a number of new auxiliary indicators (technical detail are available in this Commission SWD), namely:

- **NIIP excluding non-defaultable instruments (NENDI)** replaces Net external debt: this indicator provides a broader representation of external stocks (both assets and liabilities) carrying default risks. The new indicator profits from the revised methodology for balance of payments statistics (from BPM5 to BPM6), which allows a finer breakdown of foreign assets and liabilities. Compared with NED, NENDI: (i) excludes net intra-company foreign direct investment (FDI) debt, which in some cases accounts for a large share of cross-border debt without representing solvency concerns; (ii) includes mutual fund shares, which are sometimes a very large item and are mostly backed by bonds; and (iii) includes net financial derivatives. Seen from a different perspective, NENDI is a subset of the NIIP that excludes equity-related components, namely FDI equity and equity shares, and intra-company cross-border FDI debt.
- **Consolidated banking leverage** (domestic and foreign entities from ECB consolidated banking data) replaces the non-consolidated financial sector leverage indicator from national account. This indicator has more clear economic interpretation, is comparable across countries, and is consistently based on book values, even if it covers the banking sector only.
- **Household debt (consolidated)** to complement the headline indicator on private sector debt;
- **Gross nonperforming loans**, which provides complementary information to assess private sector debt. The addition of the latter has become possible thanks to the availability of cross-country-comparable data in the ECB's consolidated banking statistics as of 2015.

To keep the scoreboard relevant and parsimonious, two auxiliary indicators previously included were dropped:

- the ten-year change in nominal unit labour costs (as it overlaps with data on three-year change on unit labour costs among the headline indicators and on ten-year change in unit labour costs relative to euro area also in the auxiliary indicators);
- non-consolidated private sector debt (which has been superseded by the headline indicator on consolidated private sector debt).

Auxiliary MIP indicators have no thresholds and are less visible than the headline "MIP scoreboard indicators"; nevertheless, they are of high statistical quality and comparable among Member States.

## Annex 5: Summaries of three studies on the functioning of the MIP and presenting proposals for its improvement

In October 2019, the Coordinators of the ECON Committee requested the EGOV Unit to provide three papers on the MIP, written by academic experts. The papers were requested also in light of the upcoming Commission's report on the application of the MIP regulations (1176/2011 and 1174/2011). In accordance with the regulations, such report would evaluate, inter alia:

- the effectiveness of the Regulations;
- the progress in ensuring closer coordination of economic policies and sustained convergence of economic performances of the Member States in accordance with the TFEU. Where appropriate, that report shall be accompanied by a proposal for amendments to the Regulations.

The papers were published between February and May 2020. The Commission launched the EU economic governance review in February 2020.

**How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?**
By Agnès Bénassy-Quéré (Chief Economis at Treasury - France, and Sorbonne University), Guntram Wolff (Director, Bruegel)

This paper presents first an empirical analysis of the implementation of the MIP, showing that:

- the implementation rate of the country-specific recommendations has been declining over time; although imbalances have clearly receded in the euro area and in the EU over 2013-2018, there is no apparent link with the implementation of the CSRs;
- despite past reforms, the MIP keeps still largely a country-by-country approach, running the risk of contributing to a deflationary bias in the euro area.

The authors then advance some proposals on how the MIP could be improved, namely by:

- streamline the scoreboard around a few meaningful indicators,
- in the recommendation to the euro area, include a section explaining the strategy to reduce imbalances, and specify the contribution of each Member State
- focus the MIP-CSRs on policy actions that can have direct impact on imbalances.
- Involve national macroprudential authorities and national productivity councils; coordinate the timetable of the European semester with that of ESRB's recommendations;
- simplify the language and further involve the Commission into national policy discussions.

**Macroeconomic Imbalances Procedure: has it worked in practice to improve the resilience of the euro area?**
By Lorenzo Codogno

While the MIP is for the whole of the EU, the paper focuses on the Euro Area, as, according to the author, the sharing of the single currency makes macroeconomic imbalances even more dangerous and hard to correct. The paper focuses on three issues:

- the extent to which the MIP contributed to its stated and expected objectives and, more broadly, whether the MIP has better equipped the Euro Area to identify and prevent unsustainable macroeconomic developments. It presents some stylised trends in macro variables and how the procedure tracks them.
- provide a tentative counterfactual exercise, to see whether the currently upgraded economic surveillance would have helped in preventing the emergence of vulnerabilities and imbalances in those Member States that required financial assistance during the financial and economic crisis.
- provide some policy recommendations on how to make the prevention of unsustainable policies more effective in the future and assess whether other supranational policy tools could help complement the current framework. The main policy recommendations of the study are that some re-tooling of the MIP is necessary and that increasing its ownership at the national level is essential.

The paper concludes that the procedure has substantially improved the macroeconomic dialogue and the policy debate on the best ways to address structural issues and imbalances and, at the margin, has likely strengthened policy response, although imbalances are not directly under the control of policymakers. Even if the MIP cannot identify and prevent the next crisis, the MIP can contribute to reducing the areas of weakness and the macroeconomic trends that may prove to be unsustainable. The reduction of structural weaknesses through policy action has likely already benefitted the resilience of Member States' economies and that of the EU/Euro Area to external or internal shocks.

Many issues, however, remain outstanding. The Euro Area and individual countries are still vulnerable and exposed to shocks. Especially the level of public and private debt, and, for some countries, the net international investment position remain a concern. Resilience to shocks cannot be addressed only through changes in the macroeconomic structure of the Euro Area economies. Advances in other areas would be required, and especially in terms of a Euro Area fiscal capacity and the sharing of risk. Some specific changes to the MIP could achieve better results in the near term; these include taking into account the Euro Area dimension more explicitly, i.e. spillovers, complementarities, and trade-offs, as well as the different economic structure of individual countries.

**How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?**

By Alexander Kriwoluzky, Malte Rieth - DIW Berlin and Freie Universität Berlin

This paper analyses the effects of the implementation of the MIP on the macroeconomic performance of countries in the EU and the euro area. On the basis of a statistiacl analysis of the MIP-scoreboard indicators and the related breach of thresholds, the authors find that the introduction of the MIP led to a decline in current account imbalances and private sector debt and credit flows, which are good predicotrs of financial and economic crisis. Considering that the economic literature recognises the deterioration of these indicators as deeply affecting a crisis, the authors infer that their improvement put the countries in the EU and the euro area in better position to prevent a deep economic crisis. Nevertheless, the overall effects were limited. To strengthen the MIP, they support the introduction of a EU fund that pays grants, conditional on the implementation progress of economic reforms.

BRIEFING

# The role (and accountability) of the President of the Eurogroup

*This note provides an overview of the role of the President of the Eurogroup, the procedures for his/her appointment, as well as proposals on a "full time position" as part of the wider debate on deepening the Economic and Monetary Union. The note also briefly addresses the mandate and working methods of the Eurogroup. In addition, this note refers to the debate around the transparency of Eurogroup proceedings. It is updated in light of relevant developments.*

## I. The President of the Eurogroup

The Eurogroup is led by a President selected in a personal capacity by its peers, by simple majority for a two and a half term. As set out in its Working Methods (as adopted in 2008), the President of the Eurogroup (PEG) must hold the position of national minister of finance.

The tasks of the PEG are:

- To chair and steer EG meetings and sets the agenda;
- To draw up the Eurogroup's work programme (see Box 1);
- To present the outcomes of EG discussions to the public and the ministers of non-euro area EU countries during ECOFIN meetings;
- To represent the EG in international fora, and
- To take part in regular Economic Dialogues with the European Parliament.

The Presidency of the Eurogroup had been taken on a 6 months rotating basis until January 2005. Jean-Claude Juncker was elected the first permanent president of the EG in January 2005 by the Finance Ministers.

On 1 December 2009, the Protocol 14 to the Lisbon Treaty entered into force, entrusting Ministers of the euro area Member States to discuss matters related to the single currency and to elect the president by a simple majority of votes, for two and a half years. The Lisbon Treaty also amended the voting rules in the Council, so that when the Economic and Financial Affairs Council (ECOFIN) votes on matters affecting the euro area only, only EG members are allowed to vote.

In January 2013, Jeroen Dijsselbloem, at that time Minister of Finance of the Netherlands, was appointed as PEG; in July 2015, he was reappointed for another term, until 13 January 2018.In December 2017, Mário Centeno, at that time Minister of Finance of Portugal, was appointed as PEG. On 11 June 2020 Centeno informed his colleagues that he would not to run for a second term.

Paschal Donohoe, Minister of Finance of Ireland, was elected PEG on 9 July 2020 following a secret simple majority vote (in two rounds) from the 19 euro area countries. Donohoe's mandate started on 13 July 2020. In his motivation letter, he emphasised he would be "*building bridges*" and committed to a transparent and inclusive Eurogroup, including giving a pro-European voice internally and with external partners. He also emphasized the importance of effectively communicating to citizens and the European Parliament the steps

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being taken at Eurogroup on the EG agenda.[1] A first Economic Dialogue with Members of the Economic and Financial Committee (ECON) of the European Parliament (EP) will take place in due time (see below specific section on the relationship between the PEG and the EP).

The PEG may also be elected Chair of the Board of Governors of the European Stability Mechanism (ESM) if the members of the Board so decide. A separate EGOV document provides an overview on the ESM and its accountability features.

The EG has also been made responsible for preparing the Euro Summit meetings and for their follow-up. The Treaty on Stability, Coordination and Governance in the EMU of 2012 established that the Euro Summit would meet at least twice a year, to provide strategic orientation on the economic and fiscal policies. The October 2011 Euro Summit statement recalls that "*The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester. It will rely on a stronger preparatory structure.*"

In March 2017, Donald Tusk was reappointed President of the Euro Summit for the period from 1 June 2017 to 30 November 2019. The July European Council elected Charles Michel as Mr. Tusk's successor and Heads of State or Government of the Member States whose currency is the euro also appointed Mr. Michel as President of the Euro Summit.

The EG is supported by an advisory body, the Eurogroup Working Group (EWG), which is composed of the representatives of the euro area Member States in the Economic and Financial Committee (EFC), the European Commission and the European Central Bank. Tuomas Saarenheimo was elected as the new chair of the EWG by his peers on 6 February 2020 (and confirmed by the Eurogroup on 17 February 2020). He took office as of 1 April 2020 for a two-year term.

**Box 1: Eurogroup's work programme October 2020 - June 2021**

According to the work programme, the Eurogroup (EG) will focus on the following priority areas:

**Implementing effective, sustainable policies in a concerted manner:** stabilising the economy and supporting the recovery requires intense policy dialogue and co-ordination. Next Generation EU, including its emphasis on green and digital agendas, will be a key element in supporting Member States' recovery. The EG will play an important role in fostering consistency and coherence between national policies, the use of the new EU financing tools, and euro area priorities.

The EG has agreed that **completing the Banking Union is a priority** and it has recognized the necessity of taking Banking Union forward in a holistic manner and on a consensual basis. In the coming months, Finance Ministers will focus on finalizing the agreement on the ESM Treaty as well as on the early introduction of the common backstop to the SRF on the basis of the forthcoming risk reduction assessment by the EU institutions. Ministers will also make progress with the issue of liquidity in resolution and as a matter of priority will look into some specific aspects of the crisis management framework.

**The euro as a digital currency**: Although the detailed regulatory aspects of these changes are outside EG's purview, the EG will carefully examine the ongoing impact these changes will have on euro area economies in order to safeguard financial stability and monetary sovereignty, while remaining at the forefront of innovation and supporting growth.

**International role of the euro:** The EG will continue to monitor carefully the potential opportunities and advantages but also the risks of an enhanced international role of the euro. Equally important, the EG will monitor the plans and actions related to the introduction of the euro in the Member States with a derogation.

The EG is **committed to transparency and strengthening the legitimacy of the euro and EMU**. In its deliberations it will pay attention to and clearly communicate the impact to citizens. As part of the work programme, the EG will take stock of the implementation of the transparency regime.

[1] The other two candidates were Spain's Finance Minister Nadia Calviño (see motivation letter, dated 25 June) and Luxembourg's Finance Minister Pierre Gramegna (see motivation letter, dated 25 June).

## II. The informal nature of the Eurogroup

The European Council of 13 December 1997 endorsed the creation of the Eurogroup as **an informal body** that brings together the finance ministers of countries whose currency is the euro. The first Eurogroup meeting was convened on 4 June 1998.

The European Council conclusions of 13 December 1997 set out in broad terms the mandate for the EG, which have been followed up in the Protocol 14 to the Lisbon Treaty (see below). Leaders foresaw that "*The Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank when appropriate, will be invited to take part in the meetings.*" (our emphasis). But Leaders also noted that that "*the ECOFIN Council is the centre for the coordination of the Member States' economic policies and is empowered to act in the relevant areas (...) [and] is the only body empowered to formulate and adopt the broad economic policy guidelines which constitute the main instrument of economic coordination. (...)*".

Article 1 of Protocol 14 reads: *The Ministers of the Member States whose currency is the euro shall meet informally. Such meetings shall take place, when necessary, to discuss questions related to the specific responsibilities they share with regard to the single currency. The Commission shall take part in the meetings. The European Central Bank shall be invited to take part in such meetings, which shall be prepared by the representatives of the Ministers with responsibility for finance of the Member States whose currency is the euro and of the Commission.*

Being an informal supranational body, the EG has nevertheless gained significat proeminence during the financial and sovereign crisis. The EG was the body deciding, *de facto*, whether financial assistance would be granted, and under which conditions, to a requesting Euro Area Member State.

The informal nature of the EG is maintained in various decisions by the EU Courts, namely in the Mallis case and more recently in an Opinion of Advocate General Pitruzzella to the European Court of Justice in case Chrysostomides. In that Opinion, the Advocate General concludes that the appealed decisions of the General Court (which considered admissible charges against the Eurogroup on the basis of it being an EU Institution) are unfunded and reinforced[2] the thesis that the EG "*must be considered the embodiment of a particular form of intergovernmentalism that is present within the constitutional architecture of EMU*." and not an EU institution.

More recently, the EG is being recurrently convened in "inclusive format", comprising all Finance Ministers, to address euro area issues that are also relevant to Member States outside the euro area (such as the completion of the Economic and Monetary Union, the Banking Union and the response to the corona virus outbreak). In this respect, the EG is meeting in a format that is closer to that of the Council (ECOFIN). With Bulgaria and Croatia having joined ERM-II on 10 July and being part of the Banking Union as of 1 October 2020, any discussion on the Banking Union in the EG will obviously need to include them as well. The most recent work programme acknowledges that EG will be convening "at the appropriate format".

The Working Methods of Eurogroup (WM) were updated in 2008 (see Box 2) to reflect developments in its functioning. Importantly, the WM clearly refer to the informal nature of the Eurogroup and that issues of common concern of all Member States are to be discussed by all Member States.

According to the latest Work Programme of the EG (see Box 1): *Through its informal high-level discussions the Eurogroup will be a forum for inclusive deliberations, promoting common understanding on challenges and appropriate policies within the euro area and in cooperation with non-euro area Member States in matters of common interest. It will work closely with the EU Institutions and the Council Presidency to achieve its policy priorities.*

[2] Other cases, referred to namely in paragraphs 56 to 60 of the Opinion, also support such assessment.

**Box 2: Working Methods of the Eurogroup**

The Working Methods define a set of principles to organise the Eurogroup. It addresses:

- Eurogroup mandate: Eurogroup will discuss "matters of key importance to fiscal, monetary and structural policies in the euro area (...) identify common challenges and to formulate and agree on common approaches (...) [to] (...) foster the "ownership" by national authorities when translating them into policy action (...) [and] strengthen finance ministers' roles at home in implementing policies and advancing important reform projects.";
- Such discussions would focus on (a) the economic situation and outlook, (b) budgetary policy, (c) structural reforms (including the so called "*macro structural topics*" referring to structural reforms able to "*influence area wide macroeconomic and financial conditions or the smooth functioning of the internal market*";
- Eurogroup Presidency: the WM sets out the nomination and replacement procedures for the PEG. It also defines that the PEG is elected in its personal capacity, has to be familiar with EG matters and enjoy "*general recognition for their knowledge in EMU matters*";
- Attendance to the EG is limited to a number of officials and institutions as set out in the WM (PEG and two members from each euro area Member State, one Commission member and one Commission official in addition to the Commission president, the president of the ECB, accompanied by another member of the Executive Board or an ECB official of his choice, the EWG president, the EFC secretary and one member of the EFC staff, an assistant to the Eurogroup president, an assistant to the Commissioner for Economic and Monetary Affairs, the secretary general of the Council, the Council Secretariat's director general for Ecofin matters and one member of the Council Secretariat staff, the EPC president or an EPC vice-president may attend whenever necessary);
- Timing of meetings, Secretariat, venues and language: meetings are held at the occasion of Ecofin meetings, but if urgently required, meetings or teleconferences may be held at other times;
- Preparation of EG meetings (the EWG): the WM spell out the importance of the EWG as a preparatory body to the EG ("The EWG should remain at the centre of the Eurogroup preparations, implying that, in general, it should be in a position to examine all the documents discussed at the Eurogroup"), also referring to the Commission, ECB and Member States input. The EWG is tasked with preparing "short draft "terms of reference" or "common understandings", which could help crystallising Eurogroup views";
- Agendas, proceedings and documentation: the WM notably refer that "is a general obligation to safeguard the confidentiality of the documents prepared for the Eurogroup";
- Output of the discussions: conclusions and communication: being an informal body, the EG does not prepare conclusions. Nevertheless, the PEG prepares a letter to other participants outlining the debate and conveying his/her understanding of the meeting (which has been made publicly available). Terms of reference, statements and a dedicated website are also foreseen, as well as press conferences. Only the PEG (and ECB PRES and the Commissioner for Economic Affairs) should convey EG views, whilst preserving confidentiality of discussions;
- External dimension: the WM refer to the importance of holding regular contacts and exchanges with the Ecofin, european social partners and international counterparts, namely G7 and IMF.

The WM make a specific reference to the PEG reporting to the European Parliament "*on the priorities of the Eurogroup work programme and reports on progress achieved in the coordination of economic policies in the euro area.*"

## III. The President of Eurogroup and the European Parliament

In accordance with EU legislation, the competent Committee of the EP may invite the PEG for an Economic Dialogue during certain stages of the implementation of the European Semester for economic policy coordination and in the context of macro-economic adjustment programmes, including any post-programme surveillance.

In recent years, the practice has been that the PEG takes part in an Economic Dialogue (ED) on a regular basis twice a year (in spring and in autumn) and, if needed, on an ad hoc basis. During the 8th parliamentary term, nine EDs with the PEG were held in the ECON Committee. This practice was already agreed during the 7th parliamentary term through an exchange of letters between the competent Committee and the PEG (for an overview of the EDs with the PEG during the 8th parliamentary term, please see separate EGOV briefing).

Furthermore, the PEG occasionally took part in an exchange of views in the plenary of the EP and in inter-parliamentary meetings relating to economic governance.

During the current (9th parliamentary) term, two EDs has so far taken place (in November 2019 and April 2020). The next dialogue with the newly elected President of the Eurogroup will take place during autumn 2020.

On 9 September 2018, and on initiative of the PEG, the then Chair of the ECON Committee, Roberto Gualtieri, participated in a first exchange of views at a meeting of the Eurogroup. This practice has continued since then and the Chair of the ECON Committee participated now twice a year in the EG meetings held in context of the informal ECOFIN meetings.

## IV. Eurogroup transparency

The less formalised nature of Eurogroup ("*Member States whose currency is the euro shall meet informally*" according to the TFEU Protocol on the EG), compared with other EU institutions involved in economic governance and surveillance of Member States' policies, renders inapplicable some of the EU transparency principles to Eurogroup proceedings and decisions. The sensitivity of discussions and their potential impact on the markets (as seen during crisis times) have been used as arguments for a certain level of opacity to the internal discussions and in granting access to meeting documents. Nevertheless, the EG has been cognisant that transparency increases legitimacy and acceptance of decisions and has acted upon that principle. As said before, EG has recurrently been convening in inclusive format, thus blurring the difference from ECOFIN.

At least since the summer of 2015, the European Ombudsman monitors how requests for public access to EG documents were handled, following a complaint.

On 17 December 2015, the President of the Eurogroup addressed to its members a letter with proposals to enhance the EG transparency. The letter proposed making publicly available (a) the annotated draft agenda (with a meaningful summary of the aim of discussions); (b) the summing up letter, reflecting PEG's understanding of the discussions and subject to an *ex ante* written procedure among EG members; (c) financial assistance documentation (to be made available ahead of the decisions, to allow namely forwarding for national parliaments); (d) other meeting documents (to be made available after the EG meeting).

At the EG of 11 February 2016, Ministers agreed to "*make public the EG agendas in annotated format, as well as the summing-up letters that recapitulate the main content and course of our discussions*", whilst mandating the EWG to work on whether other meeting documents could also be made available.

On 7 March 2016 Ministers further decided "*from now on, documents submitted to the Eurogroup will, as a rule, be published shortly after meetings, unless there are well-founded objections such as: (i) documents which are still work in progress, and/or subject to further substantial changes; (ii) documents containing confidential or market-sensitive information; and (iii) documents for which the author*

**Box 3: Transparency**

In February 2019, Transparency International EU published a report on the Eurogroup's accountability and transparency. One of their conclusion is that the Eurogroup continues to evade proper accountability: "*As a basic principle, "democratic control and accountability should occur at the level at which the decisions are taken" – i.e. European decision-making should be accountable at European level. This was the stated goal, in 2012, of the Presidents of the European Council, the European Commission, the Eurogroup, and the European Central Bank. While the Eurogroup's President regularly appears before the European Parliament to answer questions, this voluntary arrangement does not constitute an effective accountability mechanism. Thus, even while operating as a de-facto gouvernement économique, the Eurogroup as such is not accountable to anyone.*"

The report highlights various proposals to improve the transparency, accountability and integrity of the EG, including the transformation of the EG into a formal body with direct responsibility at European Union level, mandatory hearings of the PEG before the European Parliament, the creation of a register containing all EG documents and the suggestion for a full-time president, to avoid interest of conflicts by splitting the role of PEG with its function as national Finance Minister.

*institution objects to their publication. (...) This initiative also extends to the ESM Board of Governors; the ESM will publish ESM programme documents on its website.*".

In a letter dated 14 March 2016, the Ombudsman (a) signalled the importance of clarifying the handling of requests for access to EG documents; (b) required transparency also concerning the proceedings of the EG preparatory bodies, namely, the Eurogroup Working Group and disclosure of an overview of available documents. The letter was copied to, namely, the President of the EP. In its response of 16 May 2016, the PEG noted that the EG is not subject to the transparency requirements applicable to "*institutions, bodies, offices and agencies*" of the European Union and pointed out to the confidentiality of EWG proceedings. The PEG also noted that the initiatives aiming at increasing EG transparency were respectful of the principles underlying the transparency requirements applicable to European bodies and institutions.

On 30 of August 2016 the Ombudsman signalled a number of issues for further consideration. The Ombudsman (a) requested clarification on handling documents not held by European institutions or bodies; (b) insisted on disclosure of provisional agendas of EWG; (c) suggested to reconsider the proposal regarding the publication of draft programme country-related documents ahead of the decisions being taken; (d) commended the intention to publish preparatory meeting documents. In its reply, dated 25 November 2016, the PEG clarified that most of the documents for EG meetings were prepared by Commission and the ESM, but documents held and prepared by EG members could only be made available in accordance with the respective national transparency regimes. He further clarified that (a) the EG proceedings already brought clarity to the EWG discussions and that (b) publication of programme documentation ahead of EG meetings were inappropriate considering their preliminary nature.

In the September 2018 Eurogroup summing up letter, Mr. Centeno noted he had informed ministers "*of my* [his] *intention to review the transparency initiative adopted by the Eurogroup in 2016 and consider further improvements*."

On 13 May 2019 the European Ombudsman launched a strategic inquiry into the transparency of the bodies involved in preparing Eurogroup meetings (i.e. Eurogroup Working Group (EWG), Economic and Financial Committee (EFC) and Economic Policy Committee (EPC)) to assess how requests for access to documents are handled. The inquiry is addressed to the Council and the Commission. In a press release, the Ombudsman notes that it is important for citizens to be able to "*follow when EU decisions are made by their national Ministers, and on what basis*" in particular in the context of a (future) euro area budget. A letter was also sent to the PEG asking for views by 15 July 2019 on how to adopt "*a more ambitious approach to the transparency of the EWG, extending for example to the proactive publication of EWG meeting documents*.".

On 11 July 2019 the PEG replied that the issues around EG transparency would be discussed with Ministers "at the next Eurogroup meeting". In its final remarks following the EG 13 September 2019 meeting, the PEG indicated that Ministers agreed to increase EG transparency by (i) creating an online repository of publicly available Eurogroup documents (available here[3]); (ii) expanding - whenever possible - the summing-up letters; (iii) increase the transparency of preparatory work in the EWG, by publishing the EWG meeting calendar and improving its webpage[4]. The PEG further noted that EG transparency arrangements should be reviewed at "*regular intervals to ensure they remain fit for purpose*". Such policies are reflected in a document titled "Eurogroup transparency policy review and way forward" dated of 20 September 2019.

According to the latest Work Programme (see Box 1), the EG will take stock of the implementation of the current transparency regime.

[3] The EG register of documents facilitates access to EG documents. Nevertheless, it seems to comprise documents that were, in any case, already made available (*inter alia*, agendas, lists of participants, summing up letters and some background documents).

[4] The meeting calendar of EWG is, indeed, being made available in the EWG website. No further documents seem available, notably, no agendas. The document "Eurogroup transparency policy review and way forward" addresses EGW transparency as follows: "*In relation to the EWG, it is worth noting that it is only a preparatory body for the discussions held by Ministers at the Eurogroup, and EWG agendas largely mirror the ones of the Eurogroup*.".

**Box 4: Debate on a full-time President of the Eurogroup**

The debate on establishing a full-time president is part of a wider discussion on how to achieve a more integrated European and Monetary Union by 2025. Recently, the European Fiscal Board (EFB) also argued in favour of a permanent President of the EG. In its assessment of the EU fiscal rules, the EFB mentions being "*convinced that the functioning of the Eurogroup could be improved if it was chaired by a full-time president, who is neither a national Finance Minister nor a member of the Commission*.".

The decision whether the president of the Eurogroup should be elected among its Members or become a full-time position should have been taken at the end of the mandate of Jean-Claude Juncker as the President of the Eurogroup, as outlined in the conclusions of the Euro Summit of 27 October 2011. At this meeting, the need for a better governance structure of the euro area, both to deal more effectively with the challenges after the financial crisis of 2008 and to strengthen the euro, was highlighted. Furthermore, the Euro Summit stated: "*The Eurogroup-together with the Commission and the ECB - should rely on a stronger preparatory structure to remain at the core of the daily management for the euro area Member States*" (point 32).

In May 2013, a German-French paper endorsed the idea to create a full-time president for the Eurogroup "relying on wider resources" to be created after the EU elections in 2014. The Dutch elections in spring 2017 fuelled the discussion, as there were doubts on whether the then current president Dijsselbloem could stay in office or he had to resign, as no more being the Dutch finance minister.

The European Parliament had taken a stance on this issue in its resolution of 16 February 2017 on the budgetary capacity for the euro area (2015/2344(INI)). "*The positions of President of the Eurogroup and Commissioner for Economic and Financial Affairs could be merged, and in such case, the President of the Commission should appoint this Commissioner as Vice-President of the Commission*."

In December 2017, the Commission published its Communication on a European Minister of Economy and Finance, as part of its Roadmap for deepening Europe's Economic and Monetary Union. The European Commission set out "*how a future European Minister of Economy and Finance could play a role in the governance architecture of the EU and euro area. Specifically, the Communication detailed the possible key functions of a European Minister of Economy and Finance, outlines the institutional setting in which the Minister would operate and sets out a potential timeline for the setting up of this new position*.".

The following points present some arguments raised in the public domain in favour of and against a full-time PEG:

- reduce the possible conflicts of interest due to defending the interest of the euro area as a whole and national interest as a current Minister of Finance;
- focus only on economic policy surveillance and cooperation with national and EU level stakeholders;
- strengthen the external representation of the euro;
- strengthen the link between the work of the President of the EG and the work of the ESM;
- strengthen the intergovernmental approach to economic governance in EMU;
- loosen the link between the EG and the work of the Council (ECOFIN);
- lack of clear EU legal framework for the new role, and
- not build on sufficient "peer support" from other Finance Ministers as the role would be somehow detached from Finance Ministers.

IN-DEPTH ANALYSIS
FOR THE ATTENTION OF THE ECON COMMITTEE

European Parliament

# EU/EA measures to mitigate the economic, financial and social effects of coronavirus

## State-of-play 18 September 2020

This document compiles information, obtained from public sources, on the measures proposed and taken at the EU or Euro Area level to mitigate the economic and social effects of Covid19. It will be regularly updated, following new developments.

The table covers, specifically:

1. Budgetary and financial support measures proposed or adopted by EU or EA institutions (Sections 1A and 1B)
2. Decisions taken by the Commission/Council/Eurogroup aiming at coordinating national economic and fiscal policies (Section 2)
3. Monetary policy measures taken by the ECB (Section 3)
4. Measures with impact on banking and macro-prudential policies taken by the SSM, ECB and ESRB (Section 4)
5. Measures pertaining to state aid policies [taken by the European Commission] (Section 5)

Feedback and suggestions: egov@ep.europa.eu
For monetary policy measures: poldep-economy-science@europarl.europa.eu

ECONOMIC GOVERNANCE SUPPORT UNIT (EGOV) in cooperation with POLICY DEPARTMENT A
Directorate-General for Internal Policies
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## SECTION 1A: Budgetary and financial measures as proposed by the Commission on 27 May as part of a revised MFF and a new EU Recovery Instrument (state-of-play 18.09.2020)

**Contact persons: Cristina Dias and Kajus Hagelstam (EGOV)**

| Establishing an EU Recovery and Resilience Facility | | | |
|---|---|---|---|
| **Instrument** | **European Commission Proposal** | **State of play in Council** | **State of play in European Parliament** |
| **Commission proposal for a European Parliament and Council Regulation on a Recovery and Resilience Facility (RRF)**<br><br>**Legal base**: 175(3) TFEU[1] (ordinary legislative procedure involving European Parliament and Council) | **Objective:** Enhancing cohesion in the EU by providing financial assistance to Member States to implement reforms in areas such as social, employment, skills, education, research and innovation, health, business environment, public administration and the financial sector.<br><br>**Mechanism:** Provide access to grants and loans to support implementation of Member States' national recovery and resilience plans defined in line with the objectives of the European Semester, including in relation to the green and digital transitions and the resilience of national economies; key performance indicators to monitor implementation; disbursements to follow agreed milestones.<br><br>**Budget**: €603 billion of which €335 billion for grants and €268 billion in loans (current prices); Financing to be frontloaded by the end of 2024 with at least 60% of grants to be committed by the end of 2022. | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals.<br><br>EUCO conclusions of 17-21 July refer to:<br><br>**Budget:** €672.5 billion (loans: €360 billion, grants: €312.5 billion) in current prices.<br><br>Money goes to the countries and sectors most affected by the crisis. 70% under the grants of the RRF will be committed in 2021 and 2022 and 30% will be committed in 2023.<br><br>Allocations from the RRF in 2021-2022 will be established according to the Commission's allocation criteria taking into account member states' respective | The Draft BUDG-ECON report (dated 1.09.2020) focuses, namely, on establishing a link with the financing under the Facility and compliance with the rule of law and requiring financed projects to be of value added; increasing the amounts available for grants and loans; clarification of the criteria for granting EU funds to national projects; establishing that 30% of the recovery and resilience plans should be dedicated to climate and biodiversity actions and environmental sustainability objectives; reinforcing the scrutiny role and mandate of the European Parliament; amending the criteria of attribution of grants in the period 2023-2024 to reflect the effective GDP loss due to the COVID crisis; adoption of the recovery and resilience plans and the corresponding financial contribution through a delegated act (and not an |

[1] Article 175 (third paragraph) TFEU provides that, if specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of Regions. In line with Article 175 (third paragraph) TFEU, the Recovery and Resilience Facility under the regulation is aimed to contribute to enhancing cohesion, through measures that allow the Member States concerned to recover faster and in a more sustainable way from the COVID19 crisis, and become (more) resilient.

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|---|---|---|---|
| | | living standards, size and unemployment levels. In years 2023 the unemployment criteria do be replaced by loss in real GDP observed over 2020 and cumulative GPD loss observed in 2020-2021 (calculated in June 2022). | implementing act, as in the Commission proposal) and the setup of a scoreboard to assess implementation of the measures proposed in the recovery and resilience plans; and imposing a specific discharge procedure to evaluate use of the funds.<br><br>**Next step in the EP**: Amendments to the draft report tabled on 16/09/2020 (to be available soon).<br><br>Developments on the legislative file can be followed through the Legislative Observatory (here). |
| **Next Generation EU: some spending programmes benefiting from the European Union Recovery Instrument (EURI)** | | | |
| **Instrument** | **European Commission Proposal** | **State of play in Council** | **State of play in European Parliament** |
| **Commission proposal for a European Parliament and Council Regulation on the public sector loan facility under the Just Transition Mechanism**[2]<br><br>**Legal base**: Articles 174(1), 175(3) and Article 322(1) of TFEU | **Objective:** Provide means for facing the climate challenge and support public investments in the most affected regions.<br><br>**Mechanism:** grants from the EU budget and loans (from financing partners, namely the EIB) to assist Member States in accelerating the transition towards climate neutrality.<br><br>**Budget:** grant component of € 1525 million (for 2021-2027), of which € 250 million from the 2021-2027 MFF and € 1,275 million from the EURI. The amount of the grant shall not exceed 15% of the amount of the loan provided but for projects | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals.<br><br>EUCO conclusions of 17-21 July refer to a budget allocation of €10 billion for the Just Transition Fund, to which the public sector loan facility relates. | The Draft BUDG-ECON report (dated 24.07.2020) focus, namely, on strengthening the focus on sectors and territories particularly affected by the transition process towards the EU 2030 climate and energy, extending the investments to be supported and excluding sectors excluded under the JTF Regulation, rendering clearer the additionally, reinforcing the participation of the relevant local and regional authorities of the territories concerned in the preparation of the |

[2] File linked to the Commission proposal for the Just Transition Fund Regulation where ECON issued an opinion last 24.06.2020. Developments on the regulation can be followed through the Legislative Observatory (here). The public sector loan facility constitutes the third pillar of the Just Transition Mechanism (the two other pillars being the Just Transition Fund and a dedicated Just Transition scheme under InvestEU).

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| (ordinary legislative procedure involving the European Parliament and Council) | located in territories in NUTS level 2 regions with a GDP per capita not exceeding 75% of the average GDP of the EU-27, the amount of the grant shall not exceed 20% of the amount of the loan provided by the finance partner. | | 'territorial just transition plan' and detailing the criteria for project selection and for their prioritisation and for the selection of finance partners other than the EIB reflecting the objectives of the Facility; guaranteeing transparency and sufficient oversight by Parliament.<br><br>Amendments to the draft report were published on 03.09.20.<br><br>Developments on the legislative file can be followed through the Legislative Observatory (here). |
| **Commission proposal for a European Parliament and Council Regulation establishing a Solvency Support Instrument**<br><br>**Legal base**: Articles 172 and 173, the third paragraph of Article 175 and Article 182(1) of TFEU (ordinary legislative procedure by involving the European Parliament and Council, and amending Regulation 2015/1017 (EFSI regulation)). Financial Regulation to apply, | **Objective:** Supporting key sectors and technologies in Member States and sectors most affected, thus counteracting distortion effects caused by covid-19 national responses and provide solvency support for viable companies.<br><br>Financing and investment operations should be decided upon until end-2024 with at least 60 % of financing and investment operations to be decided by end-2022.<br><br>**Mechanism:** Provisioning of an EU budget guarantee under the EFSI regulation to the European Investment Bank Group in order to mobilise private capital.<br><br>**EU budget provisioning:** €33,2 billion (increasing the EFSI guarantee to €42,3 billion); aim is to mobilise EUR 300 billion in equity financing.<br>Financing to be frontloaded through the amendment to the 2014-2020 MFF; EUR 28bn reserved from EURI. | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals.<br><br>EUCO conclusions following its July meeting point to no contribution from EURI. | A BUDG-ECON draft report was tabled on 29.07.2020 and calls, namely, for an enlarged scope of application, changes in the governance structure of the Instrument, the obligation for the intermediaries channelling the funds to companies to be established in the EU and a restriction on distributions of profits from assisted companies, reinforced scrutiny and accountability of the EIB towards the European Parliament, and obligation of specific reporting from assisted companies (namely on taxable revenues).<br><br>Amendments to the draft report were published on 27.08.2020.<br><br>Developments on the legislative file can be followed through the Legislative Observatory (here). |

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| including provisions relating to the protection of the rule of law | | | |
| **Commission proposal to strengthened InvestEU programme and Strategic Investment Facility**<br><br>**Legal base**: Articles 173 and 175(3) of TFEU (ordinary legislative procedure involving European Parliament and Council) | **Objective:** Mobilising investment to support the recovery and long-term growth, including a new facility to promote investments in strategic European value chains.<br><br>**Mechanism**: Provisioning of budget guarantee. It is complementary to the Solvency Support Instrument under the EFSI but will focus on long term investments to support EU policy goals and reinforces the 2018 InvestEU proposal.<br><br>**Budget**: budgetary framework (commitments in current prices) of €33,5 billion, of which €33 billion made available through the EURI. The participation of the Union in a possible forthcoming capital increase (in one or more rounds) of the EIF will need a financial envelope of up to €900 million in the MFF 2021-2027. Financing to be frontloaded through the amendment to the 2014-2020 MFF. | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals.<br><br>EUCO conclusions of 17-21 July refer to € 5.6 billion (current prices) from EURI. | The BUDGT-ECON draft report published on 04.09.2020 calls for a higher overall guarantee of EUR 80,5 billion (current prices); applying time limits to the conclusion of the guarantee agreement; for a greater share of the provisioning for the guarantee to come from the MFF; and for the text to better reflect the agreement reached with Council.<br><br>Amendments to the draft report tabled on 14.09.2020 (to be available soon).<br><br>A vote in committee is scheduled for 12.10.2020.<br><br>Developments on the legislative file can be followed through the Legislative Observatory (here). |
| **Commission proposal for a Regulation of the European Parliament and Council establishing a Technical Support Instrument (TSI)**<br><br>**Legal base**: Articles 175(3) and 197(2) of | **Objective:** Promote cohesion through provision of support for administrative capacity and long-term structural reforms, namely those addressing Country Specific Recommendations.<br><br>Commission to analyse requests for support on the basis of urgency, breadth and depth of problems identified, support needs in respect of the policy area concerned, analysis of socioeconomic indicators and general administrative capacity of the Member State.<br><br>**Mechanism:** Allows the Commission to provide Union support in the form of (a) grants; (b) public | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals.<br><br>EUCO conclusions of 17-21 July refer to a budget of €767 million. | The BUDG-ECON draft report calls, namely, for a stronger involvement of Parliament in implementing the TSI through delegated acts (instead of implementing acts); reinforced accountability and transparency towards Parliament (bi-annual reports and the establishment of a reform support dialogue); the setting of specific objectives to be pursued by Member States when requesting access to the TSI; for a stronger link between Member States proposals and the EU |

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| TFEU[3] (ordinary legislative procedure involving European Parliament and Council) | procurement contracts; (c) reimbursement of costs incurred by external experts; (d) contributions to trust funds set up by international organisations; and (e) actions carried out through indirect management.<br><br>**Budget**: € 864,4 million (in current prices) for 2021 - 2027, with a possibility of adding further resources transferred by Member States.<br><br>Replaces the current Structural Reform Support Programme (Commission has redrawn the Support Reform Programme proposed under its 2018 MFF proposal). | The Council has agreed on a partial negotiating mandate on 22 July, still not including the budgetary aspects. | policy agenda objectives; an increase in the overall envelope available for the TSI (from €864 million to €1450 million) and limit the possibility of Member States topping up additional funds to the Instrument; an obligation of requesting Member States to consult relevant stakeholders on their projects under the Instrument.<br><br>Amendments to the draft report were published on 04.09.2020.<br><br>Developments on the legislative file can be followed through the Legislative Observatory (here). |
| **New EU funding instruments to support the recovery[4]** | | | |
| **Instrument** | **European Commission Proposal** | **State of play in Council** | **State of play in European Parliament** |
| **Commission proposal for amendments to the Ceilings of the Council decision on Own Resources**<br><br>**Legal base**: Article 311 of TFEU | **Objective**: Increase the headroom to allow issuance of debt to finance Next Generation EU (see below), including the EURI (see below). It establishes:<br><br>- An Own Resources ceiling of 1.4% of EU gross national income of both the ceiling for appropriations for commitments and the ceiling for appropriations for payments, and | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team expressed on 10 July its position on President Michel's proposals. | The EP adopted its opinion on 16 September 2020, while upholding its position on the need to introduce new sources of revenue to the EU budget that should at least cover the costs related to the recovery plan. The Parliament requests a legally binding |

[3] Article 175 (third paragraph) TFEU provides that, if specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of Regions. Article 197(2) TFEU provides that the Union may support the efforts of Member States to improve their administrative capacity to implement Union law, inter alia, through facilitating the exchange of information and supporting training schemes. No Member State shall be obliged to avail itself of such support. The European Parliament and the Council, acting under the ordinary legislative procedure are to establish the necessary measures to this end, excluding any harmonisation of the laws and regulations of the Member States. In view of Articles 175 and 197 TFEU, the regulation is aimed at enhancing cohesion, through measures that allow recovery, resilience and convergence in/of the Member States concerned.

[4] On the financing side, the Commission has put forward a revised Multiannual Financial Framework for 2021-2027, currently being discussed (developments on the legislative file can be followed through the Legislative Observatory (here), and a review of the 2014-2020 Multiannual Financial Framework (developments to be followed here).

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| | - An additional temporary increase of the ceiling of 0.6 percentage points (on top of the above Own Resources ceiling), allowing the Commission to borrow funds on behalf of the Union up to an amount of EUR 750 billion in 2018 prices and assign the proceeds under the proposed EURI (see below);<br>- The increase of 0.6 percentage points will be limited in time and will only be used in the context of the recovery from the coronavirus pandemic. This increase in the Own Resource ceiling will expire when all funds have been repaid and all liabilities have ceased to exist.<br>Commission is proposing an amendment to its 2018 proposal for a EU Own Resources Decision (COM (2018) 325). The 2018 Commission proposal included financing sources by new EU own resources.<br>The Commission will propose additional own resources in the near future (see Commission Communication *"Europe's moment: Repair and Prepare for the Next Generation"*). | The EUCO conclusions of 17-21 July 2020 refer to temporarily increasing the ceiling of own resources by 0,6 percentage points to cover EU liabilities resulting from COVID related borrowing and at latest until 2058; to a calendar for introducing new own resources (non-recycled plastic waste by 1 January 2021; Commission proposals for a carbon border adjustment mechanism and a digital levy by the first semester of 2021 for introduction by 1 January 2023; new proposals by Commission a revised ETS (possible extension to maritime and aviation). Other own resources may be introduced in the course of the 2021-2027 MFF, including a financial transaction tax.<br>The Council Legal Service issued on 24 June an opinion (LIMITE) on the Commission proposal. | calendar to introduce these new own resources.<br>The draft report was adopted by the BUDG Committee on 01.09.2020.<br>Developments on the legislative file can be followed through the Legislative Observatory (here). |
| **Commission proposal for a Council Regulation establishing a** | **Objective:** Support the recovery in the aftermath of the COVID-19 pandemic. The proposed act allows the Commission to finance itself in capital markets up to € 750 bn and to provide loans and grants, and determines the allocation of funds to different Union programmes[6] in line with the | On 19 June EU Leaders initiated discussions on the recovery fund and the MFF. President Michel presented concrete proposals on 10 July ahead of a physical meeting convened on 17-18 July. The EP negotiation team | EP resolution of 23 July on the conclusions of the extraordinary European Council (EUCO) meeting of 17-21 July set out the EP priorities in view of an overall agreement for the MFF and the recovery legislative files |

[6] EU instruments and programmes to be financed include namely:
(a) restore employment and job creation and restore health care systems (namely through EU4Health);
(b) reforms and investments to reinvigorate the potential for growth, to strengthen cohesion among Member States and to increase their resilience (namely through the ReactEU);

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| **European Union Recovery Instrument (EURI)**<br><br>**Legal base**: Article 122 of TFEU[5] | strategy set out in the European Union Recovery Plan.<br><br>**Budget**: €500 billion (in 2018 prices) for non-repayable support, repayable support through financial instruments or for provisioning for budgetary guarantees and related expenditure and €250 billion to provide loans to Member States.<br><br>The proposed regulation establishes (a) the total amount available (on the basis of the amended own resources decision (see below) and its budgetary classification; (b) the modalities of disbursing (loans and grants) and respective amounts; (c) policies to be financed; (d) time limits; (e) reporting obligations (linked also to a revised Interinstitutional agreement on budgetary discipline).<br><br>No repayment of the borrowings foreseen before 2028; the Union will bear contingent liability in the form of a guarantees for debt issued until they are repaid (see above amendments to the EU Own Resources Decision). | expressed on 10 July its position on President Michel's proposals.<br>EUCO conclusions of 17-21 July 2020 refer, in particular, to a budget of up to €750 billion (2018 prices), with €360 billion for loans and €390 billion for grants. Net borrowing activity to stop by end 2026. Financial envelope for interests payments for 2021-2027 capped at €12 914 million. Amounts not used will reduce the debt; the ceiling can be raised in new own resources are introduced. Repayments of principal in each given year cannot exceed 7,5% of the amount available for grants.<br><br>The Council Legal Service issued on 24 June an opinion (LIMITE) on the Commission proposal. | and highlights, in particular, the EP concerns around the rule of law and the constrains posed on future budgets and MFF negotiations by some of EUCO decisions. The resolution also reinforces Parliament's requests for additional own resources to cope with repayments under EURI and for its involvement in assessing and monitoring crisis related spending. |

(c) support measures for businesses affected by the economic impact of the pandemic, in particular small and medium-sized enterprises, including direct financial investment in those enterprises (namely the InvestEU programme);
(d) support measures for economically viable businesses impacted by COVID-19 pandemic, including direct financial investment in those businesses;
(e) measures to strengthen strategic autonomy of the Union in vital supply chains, including direct financial investment in businesses (namely through the InvestEU programme);
(f) support measures for research and innovation through specific reinforced programmes;
(g) support measures for increasing the level of Union's crisis preparedness and for enabling a quick and effective Union response in the event of major emergencies (namely through the EU4Health and RescEU);
(h) support measures to ensure that a just transition to a climate-neutral economy will not be undermined by the COVID-19 pandemic;
(i) support measures to address the impact of the COVID-19 pandemic on agriculture and rural development (rural development programmes).

[5] Article 122 of the Treaty on the Functioning of the European Union foresees the possibility of measures, decided in a spirit of solidarity between Member States, appropriate to the economic situation. The present situation is unprecedented. It is characterized by severe difficulties caused by exceptional occurrences beyond the Member States' control. Therefore, it is appropriate to adopt under Article 122 TFEU exceptional temporary measures to support recovery and resilience across the Union.

## SECTION 1B: Budgetary and financial measures adopted before the Commission proposals of 27 May 2020 (state-of-play 18.09.2020)

| Institution | Measures | Objective | Further observations and state-of-play |
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| **Eurogroup**<br><br>**ESM Pandemic Crisis Support (PCS),** based on the existing ESM Enhanced Conditional Credit Line | Establishment of the **European Stability Mechanism Pandemic Crisis Support.** The available sum, up to 2% of the requiring Member State's 2019 GDP, will be available until December 2022. | Grant a precautionary credit line to euro area MS at favourable conditions. The credit line can be drawn in cash (loan) or by ESM purchase of bonds issued by the Member States on the primary market. | After completion of national procedures, the PCS was made operational on 15 May by the ESM Board of Governors (see ESM explainer). See also EGOV briefing. |
| **Commission** (2 April)<br><br>Legislative proposal for **SURE** | Proposal for a Council Regulation, based on art 122 TFEU, setting up a new instrument for temporary **Support to mitigate Unemployment Risks in an Emergency (SURE).** | Establish a fund, with guarantees by all EU Member States, to provide loans to Member States. | Published in the Official Journal of 19 May as Council Regulation (EU) 2020/672. Guarantees from Member States underpinning SURE are expected soon.<br><br>See also EGOV briefing. |
| **European Investment Bank** (16 April 2020) | Creation of a €25 billion "**Pan-European Guarantee Fund**" to enable the EIB Group to scale up its support for companies in all 27 EU Member States by up to €200 billion. | The 27 EU Member States have been invited to contribute to the Fund, with a share of the €25 billion equal to their share of EIB capital. | The Board of Governors of the EIB agreed on 26 May the structure and the functioning of the Fund.<br><br>The Fund will become operational as soon as Member States accounting for at least 60% of EIB capital have signed their contribution agreements and a Contributors Committee has been set up. |
| **Commission** (2 April)<br><br>Coronavirus Response Initiative Plus (**CRII Plus)** | Amendment to the **European Regional Development Fund Regulation** (Regulation 1301/2013) and the Common Provision Regulation (Regulation 1303/2013). | Provide flexibility through transfer possibilities across the three cohesion policy funds (the European Regional Development Fund, European Social Fund and Cohesion Fund) | Council final adoption on 22 April.<br><br>Adopted by the EP at its plenary meeting of 16 and 17 of April |

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| **Commission** (13 March 2020)<br>Proposal for a Regulation on COVID-19 Response Investment Initiative (**CRII)** | The Regulation amends three Regulations related to the **EU Structural funds**, namely:<br>- The European Regional Development Fund Regulation (Regulation 1301/2013), by clarifying that the Fund may support SMEs and set Research and Technological Development as priority.<br>- The Common Provision Regulation (Regulation 1303/2013) which sets the general rules for all the EU funds. By changing the rules, the Commission facilitates the use of 37 bn already earmarked for the EU structural funds.<br>- The EU Maritime and Fishery Fund Regulation (Regulation 508/2014), by allowing to use the fund to cover losses due to a public health crisis. | Facilitate the use of 8bn (MS's return) +29bn (still available fund for 2020) = 37 bn euro already earmarked in the MFF 2013-2020. | On 30 March, the Council adopted the measures which are in force since April 1st.<br>On 26 March, the plenary meeting of European Parliament adopted its position on the new measures. |
| **Commission** (2 April)<br>New Solidarity Instrument: Emergency Support Instrument | Amendment to the **current MFF regulation** (linked to a draft amendment to the 2020 EU budget and proposal for mobilisation of the Contingency Margin in 2020) | Mobilisation of special instruments to release funds for an Emergency Support Instrument (in an amount of 2.7 bn euro) that provides grants to MSs | Adopted by EP Plenary on 16-17 April.<br>Council adopted its position on 14 April and the final act was published as Council Regulation 2020/521, of 14 April 2020. |
| **Commission** (13 March 2020)<br>Proposal for a Regulation to provide financial assistance to Member States and countries negotiating their accession to the Union seriously affected by a major public health emergency | The Regulation amends the **Regulation governing the EU Solidarity Fund**, by enlarging its scope to public health crisis. 800 mn euro are available in 2020.<br>Funds are available also to accession Countries. | Facilitate the provision of up to 100 mn to each MSs as advanced payments within the Fund. Total available amount: 800 mn. | On 30 March the Council adopted the measures.<br>On 26 March, the plenary meeting of European Parliament adopted its position on the new measures. |

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| **Commission** (8 May)<br><br>Press release | Proposal to postpone the entry into force of two EU taxation measures – of **the VAT e-commerce package** by 6 months and certain deadlines for filing and exchanging information under the Directive on Administrative Cooperation (DAC) | Reduce administrative burden: the VAT e-commerce package will apply as of 1 July 2021 instead of 1 January 2021; for DAC Member States will have 3 additional months to exchange information on financial accounts of which the beneficiaries are tax residents in another Member State and on certain cross-border tax planning arrangements | Parliament and Council have been informed to proceed discussions |
| **Commission** (3 April 2020)<br><br>Decision | Decision to waive **VAT and import duties for goods** needed to combat the effects of the COVID-19 outbreak (from 30 January 2020 to 31 July 2020). | Reduce financial burden in acquiring from third countries medical equipment. | Member States need to inform the Commission on:<br>(a) nature and quantities of the various goods admitted free of import duties and VAT, (b) of the organisations approved for the distribution or making available of those goods, (c) of the measures taken to prevent the goods from being used for purposes other than to combat the effects of the outbreak |
| **Commission and European Investment Fund (EIF)**<br>(6 April) | The European Commission unlocked €1 billion from the **European Fund for Strategic Investments** that will serve as a guarantee to the European Investment Fund. This will allow the EIF to issue special guarantees to incentivise banks and other lenders to provide liquidity to at least 100,000 European SMEs and small mid-cap companies hit by the economic impact of the coronavirus pandemic, for an estimated available financing of €8 billion. | Provision of guarantees up to €8 billion that would allow banks to provide liquidity to SMEs. | SMEs will be able to apply directly to their local banks and lenders participating in the scheme, which will be listed on www.access2finance.eu |
| **European Investment Bank**<br>(16 March 2020) | EIB Group offers support to European **companies under strain from the coronavirus pandemic** and its economic effects. Potential financing of up to EUR 40 billion can be mobilised at short notice, backed up by | €40 billion potential financing | On 3 April, the EIB Board approved a "multi-beneficiary intermediated loan" of EUR 5bn covering all EU MSs, as part of its emergency response package |

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| | guarantees from the European Investment Bank Group and the European Union budget. Extra funding is available for healthcare sector for emergency infrastructure and development of cures and vaccines. | | which aims to rapidly mobilise financing for SMEs and Midcaps in the coming weeks up to EUR 40bn. |
| **European Bank for Reconstruction and Development** (EBRD) (13 March 2020) | The EBRD has unveiled an emergency €1 billion "Solidarity Package" of measures to **help companies across its regions deal with the impact of the coronavirus pandemic**. Under the emergency programme, the EBRD will set up a "resilience framework" to provide financing for existing EBRD clients with strong business fundamentals experiencing temporary credit difficulties. | €1 billion (increased to €21 billion on 28 April) | Among countries assisted by the EBRD there are several EU countries (complete list here) |

## SECTION 2: Dealing with the coronavirus – Surveillance and coordination of national economic and fiscal measures (state-of-play 18.09.2020)

**Contact persons: Jost Angerer and Kristina Grigaite (EGOV)**

| The European Semester and the activation of the escape clause of the Stability and Growth Pact (SGP) | | | |
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| **Institution** | **Measures** | **Objective** | **Further observations and state-of-play** |
| **Commission (**20 May 2020**)** and<br><br>**Council** (20 July 2020) | The 2020 **Country Specific Recommendations** (CSRs) for all EU Member States and opinions on Member States' economic and fiscal policies for 2020 were adopted by the Council on 20 July. They contain only minor amendments compared to the Commission proposals of 20 May 2020. The 2020 CSRs take account of the pandemic and the need to support economic recovery.<br><br>In addition to its proposals for 2020 CSRs, the Commission adopted on 20 May **Excessive Deficit Procedure Reports** (under Article 126(3) of the Treaty) for all Member States (except Romania, which is already in the corrective arm of the Pact), in which it identifies that all Member States (except Bulgaria) do not comply with the deficit criterion (and some also not with the debt criterion). At the same time it considered (in light of the pandemic) that at this juncture a decision on whether to place Member States under the EDP should not be taken. | To support Member States to take all necessary measures to effectively address the pandemic, sustain the economy and support the recovery. | The Commission published on 17 September a Communi-cation setting out the Com-mission's views on the 2021 European Semester priorities and the interlinkages with the recovery and resilience plans. |

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| **Council (ECOFIN)** (23 March and 16 April) | Ministers agreed on the **simplification of information requirements** for this year's cycle of the European Semester.<br>Given the high degree of uncertainty as a result of the socio-economic fallout of the COVID-19 pandemic, the Commission put forward a simplified process for this year's European Semester exercise. In particular, there was a streamlined approach for the submission of national reform and stability or convergence programmes (NRPs and SCPs) by Member States. | To preserve the European Semester's main milestones, while taking into account the challenging times Member States are facing. | For an overview of the 2020 National Reform Programme and Stability or Convergence Programmes, see Commission's website.<br><br>For an overview of the 2020 CSRs, please see separate EGOV briefing. For an overview on the legal bases of the adopted CSRs, please see additional separate EGOV briefing. |
| **Commission** (20 March)<br><br>**Council** (23 March)<br><br>**Eurogroup** (9 April) | The activation of the general **escape clause of the SGP to allow** Member States to undertake budgetary measures to deal adequately in times of severe economic downturn, within the procedures of the SGP.<br><br>The general escape clause does not suspend the procedures of the SGP. It will allow the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact, while departing from the budgetary requirements that would normally apply.<br><br>While the general escape clause is of temporary nature, no specific indication on the timing and criteria for the deactivation has been provided by Commission and Council. | The use of the clause will ensure the needed flexibility to take all necessary measures for supporting the Member States' health and civil protection systems and to protect the Member States' economies, including through further discretionary stimulus and coordinated action, designed, as appropriate, to be timely, temporary and targeted, by Member States. | Proposed by Commission on 20 March<br><br>Endorsed by the Council on 23 March<br><br>Leaders welcomed the activation of the clause in their statement of 27 March.<br><br>On 9 April, the Eurogroup reiterated the flexibility in the EU rules agreed on 23 March 2020.<br><br>On 1 July, the European Fiscal Board stated: "*For greater effectiveness and credibility, the activation should have provided indications on the timing of and conditions for exit or review. Clarifications should be offered in spring 2021 at the latest. In the current context it would not be advisable to use the growth rate of real GDP when considering the end of a severe economic* |

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| | | | *downturn; using a pre-crisis level of real GDP of the euro area and the EU as a reference would make more sense".* |
| **Coordination of Euro Area Member States economic policies** | | | |
| **Institution** | **Measures** | **Objective** | **Further observations and state-of-play** |
| **Eurogroup** (11 September 2020) | Ministers exchanged views on the current economic situation in the euro area, reviewed the policy action at national and European level and looked at the recovery needs economies may face after the COVID-19 crisis.<br>The Eurogroup held a thematic discussion on the political economy factors that facilitate the introduction of reforms, maximise their impact and ensure efficient deployment of public resources in the context of the recovery. The discussion was based on a technical note prepared by the Commission. | A coordinated approach on budgetary policy and for using the Eurogroup as a forum to reach this understanding. | |
| **Eurogroup** (24 March 2020)<br><br>Letter by the President of the Eurogroup | (...) *We agreed on the imperative to implement and scale up our agreed actions to support our citizens and businesses. This strategy includes further discretionary stimulus and coordinated action, designed, as appropriate, to be timely, temporary and targeted.*<br>*The aggregate amount of Member States' discretionary fiscal measures increased twofold to close to 2% of Euro Area GDP, while liquidity support schemes for firms and workers have been scaled up to more than 13% of Euro Area GDP, up from 10%. This is a clear increase in our fiscal response.* | *The Eurogroup is committed to explore all possibilities necessary to support our economies get through these difficult times. This involves all our institutions.* | EU Leaders (26 March) took note of the progress made by the Eurogroup. |
| **Eurogroup** (16 March 2020)<br><br>Statement | Member States will implement:<br>• Immediate fiscal spending targeted at containment and treatment of the disease.<br>• Liquidity support for firms facing severe disruption and liquidity shortages, especially SMEs and firms in severely affected sectors and regions, including transport and tourism – this can include tax | Member States will be allowed to carry out health care expenditures and targeted relief measures for firms and workers to address the economic impact of the coronavirus. Their impact on public finances will not be considered by the Commission and | Implementation at national level. |

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| | measures, public guarantees to help companies to borrow, export guarantees and waiving of delay penalties in public procurement contracts;<br>• Support for affected workers to avoid employment and income losses, including short-term work support, extension of sick pay and unemployment benefits and deferral of income tax payments.<br><br>Automatic stabilisers will fully play their role. This means that automatic revenue shortfalls and unemployment benefit increases resulting from the drop in economic activity will not affect compliance with the applicable fiscal rules, targets and requirements. | the Council as breaches of the EU fiscal rules. | |

## SECTION 3: Dealing with the coronavirus - ECB monetary policy (state-of-play on 18.09.2020)

**Contact persons: Drazen Rakic (Policy Department A)**

| Institution | Measures | Objective | Further observations |
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| **Interest rate policy** | | | |
| **ECB**<br>Regular Governing Council meeting<br>(12 March 2020) | Key interest rates remain unchanged:<br>– main refinancing operations: 0.00%;<br>– marginal lending facility: 0.25%;<br>– deposit facility: -0.50%. | | Forward guidance: Key ECB interest rates to remain at their present or lower levels until inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. |
| **Asset purchase programmes** | | | |
| **ECB**<br>Extraordinary Governing Council meeting<br>(4 June 2020) | Pandemic Emergency Purchase Programme (PEPP) increased to EUR 1350 billion. | Support favourable financing conditions for the private and public sectors. | - The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows the Governing Council to effectively stave off risks to the smooth transmission of monetary policy.<br>- The horizon for net purchases under the PEPP will be extended to at least the end of June 2021. In any case, the Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over.<br>- The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. |
| **ECB**<br>Extraordinary Governing Council meeting<br>(18 March 2020) | New Pandemic Emergency Purchase Programme (PEPP) of EUR 750 billion. | Support favourable financing conditions for the private and public sectors. | - Together with the additional envelope of EUR 120 billion, this represents 7.3% of euro area GDP or about 32% of cumulative net purchases under the asset purchase programme (APP) since 2015.<br>- Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing APP. A waiver of the eligibility requirements for securities issued by the Greek government will be granted for purchases under PEPP. |

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| | | | - For the purchases of public sector securities, the benchmark allocation across jurisdictions will continue to be the capital key of the national central banks. At the same time, PEPP purchases will be conducted in a flexible manner, allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.<br>- Issuer limits will not apply to the PEPP. For more specific details on the PEPP see ECB Decision of 24 March 2020.<br>- The Governing Council is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed, as was announced by the ECB on 30 April 2020. |
| | Expansion of the range of eligible assets under the corporate sector purchase programme (CSPP). | | - CSPP eligibility expanded to non-financial commercial paper, making all commercial papers of sufficient credit quality eligible for purchase under CSPP. |
| | Strengthened forward guidance on the APP. | | - The Governing Council is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It will explore all options and all contingencies to support the economy through this shock.<br>- The Governing Council will consider revising some self-imposed limits to the extent necessary. |
| **ECB**<br>Regular Governing Council meeting<br>(12 March 2020) | Temporary envelope of additional net asset purchases of EUR 120 billion (until year-end, in addition to the existing net asset purchases of EUR 20 billion per month under the APP). | Support favourable financing conditions for the real economy. | Forward guidance: Net asset purchases to run for as long as necessary to reinforce the accommodative impact of policy rates, and to end shortly before the Governing Council starts raising the key ECB interest rates. |
| | Continuing reinvestments of the principal payments from maturing securities purchased under the APP, in full. | | - To be kept past the date when the ECB starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. |

| **Long-term refinancing programmes** | | | |
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| **ECB** Regular Governing Council meeting (30 April 2020) | Reduced interest rate for TLTRO III outstanding operations from June 2020 to June 2021. | Support bank lending (in particular lending to SMEs). | - 50 basis points below the average rate applied in the Eurosystem's main refinancing operations; and<br>- As low as 50 basis points below the average interest rate on the deposit facility to institutions reaching benchmark levels of lending.<br>- For more details, please refer to a dedicated press release. |
| | Introduced a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) | Liquidity support and support smooth functioning of money market funds (by providing liquidity backstop). | - Will consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021 in line with the duration of the collateral easing measures.<br>- Carried out as fixed rate tender procedures with full allotment.<br>- Interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.<br>- For more details, please refer to a dedicated press release. |
| **ECB** Regular Governing Council meeting (12 March 2020) | Additional longer-term refinancing operations (LTROs). | Liquidity support. | - Aim to bridge the period until the TLTRO III operation in June 2020.<br>- Carried out through a fixed rate tender procedure with full allotment.<br>- Interest rate that is equal to the average rate on the deposit facility over the life of the operation (all operations mature on 24 June 2020).<br>Specific ECB press release provides additional details and specifically refers that the ECB is ready to provide additional liquidity if needed. |
| | Reduced interest rate for TLTRO III outstanding operations from June 2020 to June 2021. | Reduced interest rate for TLTRO III outstanding operations from June 2020 to June 2021. | Support bank lending (in particular lending to SMEs).<br>- As low as 25 basis points below the average interest rate on the deposit facility to institutions reaching benchmark levels of lending. |
| | Further easing of conditions for TLTRO III. | Support bank lending (in particular lending to SMEs). | - Increase to 50% (from 30%) of their stock of eligible loans as at 28 February 2019 for all future TLTRO III operations.<br>- Bid limit (10% of the stock of eligible loans) per operation removed on all future operations. |

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| | | | - Lending performance threshold reduced to 0% (from 2.5%) in the period between 1 April 2020 and 31 March 2021. Additional details can be found in an ECB press release. |
| **Collateral framework** | | | |
| **ECB** Governing Council decision (22 April 2020) | Further collateral easing measures related to eligibility (rating) | Mitigate impact of possible rating downgrades on collateral availability | - Collateral eligibility "freeze" - assets meeting minimum credit quality requirements for collateral eligibility on 7 April 2020 (BBB-, except asset-backed securities (ABSs)) will continue to be eligible in case of rating downgrades, as long as their rating remains at or above BB).<br>- ABSs – those eligible under the general framework (rating of A-) will be grandfathered as long as their rating remains at or above BB+.<br>- Measures will remain in place until September 2021. |
| **ECB** Governing Council decision (7 April 2020) | Package of temporary collateral easing measures (linked to the duration of the PEPP) | Support the provision of bank lending by easing the conditions at which credit claims are accepted as collateral and increasing the Eurosystem's risk tolerance to support the provision of credit via its refinancing operations. | - Temporary general reduction of collateral valuation haircuts by 20%.<br>- Temporary extension of the ACC framework, composed of i) inclusion of government and public sector guaranteed loans to corporates, SMEs, self-employed individuals and households in the requirements on guarantees; ii) extension of scope of acceptable credit assessment systems; and iii) reduction of the loan level reporting requirements.<br>- Other temporary measures: i) lowering the level of the minimum size threshold for domestic credit claims to EUR 0 (from EUR 25 000); ii) increase in the maximum share of unsecured debt instruments that can be used as collateral to 10% (from 2.5%); and iii) waiver of minimum credit quality requirements for Greek government bonds in order to accept them as collateral. |
| | Permanent reduction of collateral haircuts on non-marketable assets | | For those type of assets, 20% reduction (on top of the temporary general haircut reduction). |
| **ECB** Extraordinary Governing Council meeting (18 March 2020) | Adopted a package of temporary collateral easing measures to facilitate the availability of eligible collateral and temporarily increased risk tolerance level. | Ensure that counterparties can continue to make full use of refinancing operations. | - Temporarily increased risk tolerance level and reduced collateral valuation haircuts by a fixed factor of 20%.<br>- Eased the conditions for the use of credit claims as collateral.<br>- Issued waiver to accept Greek sovereign debt instruments as collateral in Eurosystem credit operations. |

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| | | | - Forward looking guidance: ECB will assess further measures to temporarily mitigate the effect on counterparties' collateral availability from rating downgrades. |
| **ECB** Extraordinary Governing Council meeting (18 March 2020) | Easing collateral standards by adjusting the main risk parameters of the collateral framework. | Ensure that counterparties can continue to make full use of refinancing operations. | - Expansion of the scope of Additional Credit Claims (ACC) to include claims related to the financing of the corporate sector. |
| **ECB** Regular Governing Council meeting (12 March 2020) | Investigate ways of easing collateral requirements. | | |
| **Swap and repo lines** | | | |
| **ECB** Press release (18 August 2020) | ECB and Central Bank of the Republic of San Marino set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 100 million.<br>- Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until June 2021, or as long as needed. |
| **ECB** Press release (18 August 2020) | ECB and National Bank of the Republic of North Macedonia set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 400 million.<br>- Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until June 2021, or as long as needed. |
| **ECB** Press release (23 July 2020) | ECB and Magyar Nemzeti Bank set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 4 billion.<br>- Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until June 2021, or as long as needed. |
| **ECB** Press release (17 July 2020) | ECB and Bank of Albania set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 400 million.<br>- Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until June 2021, or as long as needed. |
| **ECB** Press release (17 July 2020) | ECB and National Bank of Serbia set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 1 billion. |

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| | | | - Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until June 2021, or as long as needed. |
| **ECB**<br>Press release<br>(25 June 2020) | New Eurosystem repo facility to provide euro liquidity to non-euro area central banks | Addresses possible euro liquidity needs in case of market dysfunction resulting from the COVID-19 shock that might adversely impact the smooth transmission of ECB monetary policy. | - New backstop facility to allow non-euro area central banks to borrow euro against euro-denominated debt issued by euro area central governments and supranational institutions.<br>- Available until June 2021. |
| **ECB**<br>Press release<br>(5 June 2020) | ECB and National Bank of Romania (BNR) set up repo line to provide euro liquidity | FX liquidity support. | - Repo line arrangement to provide euro liquidity to the BNR to address possible euro liquidity needs.<br>- Size of repo line set at EUR 4.5 billion.<br>- Maximum maturity of each drawing will be three months.<br>- Repo line to remain in place until end-2020, or as long as needed. |
| **ECB**<br>Press release<br>(22 April 2020) | ECB and Bulgarian National Bank set up swap line to provide euro liquidity | FX liquidity support. | - Precautionary currency agreement (swap line) to provide euro liquidity.<br>- The Bulgarian National Bank will be able borrow up to EUR 2 billion from the ECB in exchange for Bulgarian levs.<br>- The maximum maturity for each drawing will be 3 months.<br>- To remain in place until 31 December 2020, unless it is extended. |
| **ECB**<br>Press release<br>(15 April 2020) | ECB and Hrvatska narodna banka (Croatian National Bank) set up swap line to provide euro liquidity | FX liquidity support | - Precautionary currency agreement (swap line) to provide euro liquidity to Croatian financial institutions in order to address possible market dysfunction.<br>- The Croatian National Bank will be able borrow up to EUR 2 billion from the ECB in exchange for Croatian kuna.<br>- The maximum maturity for each drawing will be 3 months.<br>- To remain in place until 31 December 2020, unless it is extended. |
| **ECB**<br>Press release<br>(20 March 2020) | ECB and Denmark's Nationalbank have reactivated a currency swap line. | FX liquidity support. | - Purpose is to provide euro liquidity to Danish financial institutions.<br>- Activated as of 20 March 2020 and to remain in place for as long as needed.<br>- Size of swap line was increased from EUR 12 billion to EUR 24 billion. |
| **ECB**<br>Press release | ECB and other major central banks[7] enhanced the US dollar operations | FX liquidity support. | - ECB and other major central banks to increase the frequency of 7-day maturity operations from weekly to daily. (As of 1 July |

[7] Bank of Canada, Bank of England, Bank of Japan, Federal Reserve, and Swiss National Bank.

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| (20 March 2020) | (the previous agreement was announced on 15 March 2020). | | 2020, the frequency was reduced from daily to three times per week, Press Release, 19 June 2020; As of 1 September 2020, the frequency was further reduced from three times per week to once per week, Press Release 20 August 2020).<br>- New frequency effective as of 23 March 2020, to remain in place for as long as appropriate to support smooth functioning of US dollar funding markets.<br>- Operations with 84-day maturity continue to be offered weekly. |
| **ECB**<br>Press Release<br>(15 March 2020) | ECB and other major central banks[8] to offer weekly US dollar operations with 84-day maturity (in addition to existing 1-week operations). | FX liquidity support. | - Pricing of all US dollar operations to be lowered to USD overnight index swap (OIS) rate plus 25 basis points.<br>- New pricing and additional operations effective as of the week of 16 March, to remain in place for as long as appropriate to support smooth functioning of US dollar funding markets. |

[8] Bank of Canada, Bank of England, Bank of Japan, Federal Reserve, and Swiss National Bank.

# SECTION 4: Dealing with the coronavirus - Banking Union (state-of-play 18.09.2020)

**Contact persons: Cristina Dias, Kristina Grigaite and Rebecca Segall (EGOV)**

| Institution | Measures | Objective | Further observations |
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| **Temporary relief measures for banks** | | | |
| **ECB Banking Supervision** (SSM) (17/09/2020) | ECB Banking Supervision decided to allow euro area banks under its direct supervision to exclude certain central bank exposures from the leverage ratio, as permitted under Article 500b of Regulation (EU) No 575/2013 (CRR "quick fix"). The relief measure will apply until 27 June 2021. | To facilitate the implementation of monetary policy. | The exclusion under Article 500b(2) Regulation (EU) No 575/2013 requires the determination of "exceptional circumstances", in consultation with the ECB Governing Council. The Governing Council confirmed that COVID-19 qualifies as exceptional circumstances on 17 September 2017.<br><br>According to the SSM, based on end-March 2020 data, this exclusion would raise the aggregate leverage ratio of 5.36% by about 0.3 percentage points. |
| **European Banking Authority**[9] (EBA) (11/08/2020) | The EBA published guidance on the impact of the CRR adjustments ("quick fix") in response to the COVID-19 pandemic. This includes a revised final draft of its Implementing Technical Standard on supervisory reporting for v3.0, and two set of guidelines on disclosure and supervisory reporting requirements | Ensure regulatory consistency. | |
| **European Commission** (24/07/2020) | Amendments to CRR creating a new framework for securitising non performing exposures (article 269a), a preferential treatment of the senior tranche of STS on-balance-sheet securitisation (article 270), recognition of credit risk mitigation for securitisation positions (article 456). | The Commission proposed targeted amendments to the CRR (and a number of other existing legal acts on financial markets) as part of a package aiming at | |

[9] On 22 April 2020, the EBA released a statement on the application of the prudential framework on targeted aspects in the area of market risk. The EBA proposes amendments to Delegated Regulation (EU) No 101/2016 on prudent valuation, and clarified aspects related the postponement of the FRTB-SA reporting requirement under the CRR2 and of the final two implementation phases of the margin requirement for non-centrally cleared derivatives. The statement also addressed back-testing breaches on Internal Models Approach (IMA) models for market risk.

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| | | maximise the capacity of institutions to lend and to absorb losses related to the COVID-19 pandemic[10]. | |
| **European Banking Authority** (EBA) 23/07/2020 | The EBA published guidelines establishing a special procedure for the 2020 supervisory review and evaluation process (SREP), applying a risk-drive approach to current exceptional circumstances, allowing for the exercise of supervisory judgement to the greatest possible extent. | To allow for sufficient flexibility in adapting supervisory practices while preserving convergent supervisory practices and outcomes. | Follows previous communication on SREP published on 22 April 2020. |
| **European Banking Authority** (EBA) 02/06/2020 | Guidelines on reporting and disclosure regarding the application of the payment moratoria to existing loans and public guarantees to new lending in response to COVID-19. | Ensure regulatory consistency. | On 7 August 2020, the EBA published a report on the implementation of COVID-19 policies and the application of existing policies under these exceptional circumstances as well as sets out common criteria that aim at providing clarity on the supervisory and regulatory expectations regarding the treatment of COVID-19 operational risk losses in the capital requirement calculations (see below). |
| **European Commission** (28/04/2020) | The Commission proposed exceptional temporary measures to alleviate the immediate impact of Coronavirus-related developments, by adapting the timeline of the application of international accounting standards (IFRS9) on banks' capital, by treating more favourably public guarantees granted during this crisis, by postponing the date of application of the leverage ratio buffer (previously envisaged to come into force 27 June 2021) and by modifying the way of excluding certain exposures from the calculation of the leverage ratio. The Commission also proposes to advance the date of application of several agreed measures that incentivise banks to finance employees, SMEs and infrastructure projects (related to implementation of Basel III). | Proposed banking package changes are aimed at facilitating bank lending to support the economy and help mitigate the economic impact of the Coronavirus. | Final act published as Regulation 2020/873, of 24 June. Applicable since 27 June 2020.<br>The package is composed of an interpretative communication and proposal for a regulation amending Regulations (EU) No 575/2013 and (EU) 2019/876<br>More information is provided in Commission Q&A section. |

[10] As explained by the Commission, the package contains targeted adjustments to the Prospectus Regulation, MiFID II and securitisation rules. All of the amendments are at the heart of the Capital Markets Union project aimed at better integrating national capital markets and ensuring equal access to investments and funding opportunities across the EU.

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| **ECB Banking Supervision** (SSM) (16/04/2020) | - Provided temporary relief for capital requirements for market risk.<br>- ECB to review decision after six months. | Aims to maintain banks' ability to provide market liquidity and to continue market-making activities | Reduced the qualitative market risk multiplier, which is set by supervisors and is used to compensate for the possible underestimation by banks of their capital requirements for market risk. |
| **Single Resolution Board** (SRB) (08/04/2020) | Provided additional clarity on the SRB's approach to minimum requirements for own funds and eligible liabilities (MREL) | Ensure regulatory consistency | |
| **European Banking Authority** (EBA) (02/04/2020) | Provided more detailed guidance on the criteria to be fulfilled by legislative and non-legislative moratoria applied before 30 June 2020 in order to avoid the classification of exposures under the definition of forbearance or as default under distressed restructuring. | Ensure regulatory consistency | The EBA sees the payment moratoria as effective tool to address short-term liquidity difficulties and clarified that payment moratoria do not trigger classification as forbearance or distressed restructuring.<br>On 18 June 2020, EBA decided to extend the application date of its Guidelines on legislative and non-legislative moratoria to 30 September 2020.<br>On 7 August 2020, the EBA published a report (updating an earlier report published on 7 July) on the implementation of COVID-19 policies and the application of existing policies under these exceptional circumstances as well as sets out common criteria that aim at providing clarity on the supervisory and regulatory expectations regarding the treatment of COVID-19 operational risk losses in the capital requirement calculations. |
| **SRB** (01/04/2020) | Postponed less urgent information or data requests related to the upcoming 2020 resolution planning cycle and stand ready to address any further issues in relation to specific requirements on an individual basis. Committed to take into consideration current situation when making the decision on future build-up on MREL. | Reduce operational burden | Letter sent to banks under SRB remit. |

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| **EBA** (31/03/2020) | Provided additional clarification regarding its expectations in relation to dividend and remuneration policies, provided additional guidance on how to use flexibility in supervisory reporting and recalled the necessary measures to prevent money laundering and terrorist financing (ML/TF) | Ensure regulatory consistency and support lending into the real economy | |
| **ECB Banking Supervision** (27/03/2020) | Recommendation to refrain from dividend payments and share buybacks | Retain funds to allow banks to better support the economy | - ECON political coordinators issued a statement to that effect on 27 March 2020 that also includes bonuses, though<br>- ECB Recommendation is to henceforth make no irrevocable commitments for 2019 and 2020 dividends<br>- institutions faced with mandatory dividend distributions to contact the SSM<br>- Addressed to significant institutions and to national competent authorities to prevent distributions also by less significant institutions.<br><br>On 28 July 2020, the ECB extended its recommendation to banks on dividend distributions and share buy-backs until 1 January 2021, and issued a letter to banks asking them to be extremely moderate with regard to variable remuneration payment. extended its recommendation to banks on dividend distributions and share buy-backs until 1 January 2021, and a letter to banks asking them to be extremely moderate with regard to variable remuneration payment. extended its recommendation to banks on dividend distributions and share buy-backs until 1 January 2021, and a letter to banks asking them to be extremely moderate with regard to variable remuneration payment. extended its recommendation to banks on dividend distributions and share buy-backs until 1 January 2021, and a letter to banks |

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| | | | asking them to be extremely moderate with regard to variable remuneration payment. |
| **EBA** (25/03/2020) | Provided additional clarification on the prudential framework in relation to the classification of loans in default, the identification of forborne exposures, and their accounting treatment.<br>EBA also insisted that institutions ensure adequate consumer protection and asked payment institutions to increase availability of contactless payments. | Ensure consistency and comparability in risk metrics | ESMA also published guidance on accounting implications of the economic support. |
| **ECB Banking Supervision** (20/03/2020) (directly supervised entities) | Flexibility in addressing NLPs through (a) classification of loans backed by public support measures (b) preferential prudential treatment of NPLs backed by public support measures in terms of supervisory expectations about loss provisioning (c) flexibility on implementation of NPL reduction strategies | | Further details given in ECB FAQs |
| | Recommendation to avoid procyclical assumptions in provisioning | | |
| | Recommendation to adopt transitory regime on IFRS 9 | | |
| **ECB Banking Supervision** (12/03/2020) (directly supervised entities)<br><br>Majority of national supervisory authorities mirrored the measures to the | Unwind of capital buffers (Banks can fully use capital and liquidity buffers, including Pillar 2 Guidance) [11] | Capital relief (not to be used in dividends or earnings distribution) | Measures to be enhanced by the appropriate relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.<br>In a 28 July 2020 press statement, the ECB clarified the expected pace for banks to restore capital and liquidity positions, allowing to allow banks to operate below the Pillar 2 Guidance and the combined buffer requirement until at least end-2022, and below the Liquidity Coverage Ratio until at least end-2021, without automatically triggering supervisory actions. |

[11] Banks allowed to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR).

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| financial institutions directly under their remit. | Relief in the composition of capital for Pillar 2 Requirements[12] | Capital relief (not to be used in dividends or earnings distribution) | Brings forward a measure scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V) |
| | Rescheduling of on-site inspections, 6 month extension of deadlines for remedial actions required by TRIM and SREP inspections | Reduce operational burden | Bilaterally adjusting timetables, processes and deadlines to implement supervisory measures (namely in dealing with NPLs strategies) |
| **EBA** (12/03/2020) | Postponement of the stress tests to 2021<br>Advised national competent authorities to use flexibility already existing in current regulations[13] | Allow banks to concentrate on operational continuity | On 25/03/2020 EBA extended deadlines to provide data on funding plans and the QIS exercise |
| **ECB Banking Supervision** (03/03/2020)<br>- Majority of national supervisory authorities mirrored the measures to the financial institutions directly under their remit. | Called directly supervised entities to consider and address potential pandemic risk in their contingency strategies (business continuity plans) | Contingency planning recommendations address both banks' own limitations as well as those of outside service providers that may be affected | Joint supervisory teams should be informed about in case significant shortfalls are identified or in case of any significant developments |
| **Macro-prudential recommendations** | | | |
| **European Systemic Risk Board** (ESRB) (14/05/2020, 08/06/2020 and 22/06/2020) | The ESRB issued four recommendations:<br>- Recommendation on liquidity risks in investment funds (recommending ESMA to coordinate supervisory engagement with investment funds to assess their preparedness); | Address the challenges stemming from the coronavirus pandemic and its potential impact on the financial system of the EU. | |

[12] Banks authorised to use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example, Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R).

[13] In particular addressing the issues covered by ECB supervisory actions - using capital and liquidity buffers, composition of pillar II requirements, flexibility in dealing with supervisory measures

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| | - Recommendation on liquidity risks arising from margin calls (recommending CCPs to limit cliff effects in relation to the demand for collateral, to review stress scenario for the assessment of future liquidity needs, limiting liquidity constraints related to margin collection, and mitigating procyclicality in the provision of client clearing services and in securities financing transactions);<br>- Recommendation on restriction of distributions during the COVID-19 pandemic (recommending to restrict dividend distribution, share buy-backs and pay variable remuneration);<br>- Recommendation on monitoring the financial stability implications of debt moratoria and public guarantee schemes and other measures of a financial nature taken to protect the real economy in response to the COVID-19 pandemic (recommending to monitor national financial stability implications of measures taken to protect the real economy in response to the COVID-19 pandemic, and to report information needed to assess the implications of the national measures).<br>- Recommendation on the postponement of certain reports on actions and measures taken (Member States as no longer requested to submit their second reports under Recommendations ESRB/2014/1 on guidance for setting countercyclical buffer rates and ESRB/2015/2 on the assessment of cross-border effects of a voluntary reciprocity for macroprudential policy measures). | | |

**Additional information:** European Systemic Risk Board website on national policy measures (a detailed list of national macroprudential measures adopted).

## SECTION 5: Dealing with the coronavirus – EU State aid Temporary Framework (state-of-play 18.09.2020)

**Contact persons: Marcel Magnus and Cristina Dias (EGOV)**

| Institution | Measures | Objective | Further observations |
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| **Commission** (regular updates) | Dedicated websites | Up-to-date information. | - Temporary SA framework<br>- List of SA cases adopted, per country<br>- Updated and consolidated version of the relevant Communication |
| **Commission** (29 June 2020)<br><br>Press release<br><br>Publication in the OJ on 2.07.2020 (in all languages) | Aid to micro and small companies, even if they were already in financial difficulty on 31 December 2019 (including start-ups); aid for recapitalisation (providing incentives for private investors to capitalise companies alongside the State). | Further amendment to the temporary State Aid framework. | - Amendments allow Member States (i) to support certain micro and small enterprises, including start-ups that were already in difficulty before 31 December 2019, and (ii) to provide incentives for private investors to participate in coronavirus-related recapitalisation measures.<br>- Specific conditions apply<br>- Commission also clarified that aid should not be conditioned on the relocation to the territory of the Member State granting the aid |
| **Commission** (08.05.2020)<br><br>Communication<br><br>Publication in the OJ on 13.05.2020 (in all languages) | Aid for subordinated debt and recapitalisation of non-financial corporates | Allow the State to subsidise subordinated debt and capital to companies affected by the coronavirus outbreak | - The Communication combines two amendments previously consulted with the Member States (aid for subordinated debt of 24.04.2020 and aid for recapitalisation of non-financial corporates of 9.04.2020)<br>- The Commission recognises that aid given at EU level would have a lesser disruptive effect (point 8), invites Member States to consider the digital and green agendas when setting their schemes (point 9), recalls that investments at arm lengths (*pari passu* alongside a private investor) do not amount to state aid (point 10) making reference to *strategic undertakings* and also notes the existing framework for the foreign direct investment screening mechanisms (point 11). |

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| **Commission** (08.04.2020)<br><br>Press release<br><br>Communication<br><br>Publication in the OJ on 8.4.2020 (in all languages) | - Guidance on antitrust assessment of business cooperation projects<br><br>- The Commission is willing to provide "comfort letters" addressing specific cooperation projects | Provide antitrust guidance to companies willing to temporarily cooperate and coordinate their activities to increase production optimise supply of hospital medicines | - A set of criteria to be fulfilled [14]<br>- Conditions include, among others, the recording of information flows between cooperating companies and agreements reached<br>- Comfort letter issued to "Medicines for Europe", addressing a voluntary cooperation project among pharmaceutical producers targeting the risk of shortage of critical hospital medicines for the treatment of coronavirus patients |
| **Commission** (03.04.2020) [15]<br><br>Press release<br><br>Communication<br><br>Publication in the OJ on 4.4.2020 (in all languages) | Support for coronavirus related research and development (R&D) | | - A number of conditions need to be fulfilled [16] |
| | Support for the construction and upgrading of testing facilities for products relevant to tackle the coronavirus outbreak | | - Could cover products such as vaccines, medical equipment or devices, protective material and disinfectants<br>- Member States can also grant no-loss guarantees to provide incentives for companies to invest<br>- A number of conditions need to be fulfilled [17] |
| | Support for the production of products relevant to tackle to coronavirus outbreak | | - Could cover products such as vaccines, medical equipment or devices, protective material and disinfectants<br>- Member States can also grant no-loss guarantees to provide incentives for companies to invest<br>- A number of conditions need to be fulfilled [18] |

[14] Criteria include the cooperation being (i) designed and objectively necessary to actually increase output to address or avoid a shortage of supply of essential products or services; (ii) temporary in nature; and (iii) not exceeding what is strictly necessary to achieve the objective.

[15] The Communication clarified a number of aspects of the Temporary Framework, namely that for an undertaking acting in various sectors aid must respect the ceilings applicable to each of the activities.

[16] Conditions include, namely, that (a) the aid is granted in the form of direct grants, repayable advances or tax advantages by 31 December 2020; (b) eligible costs may refer to all the costs necessary for the R&D project during its duration; (c) aid intensity for each beneficiary may cover 100% of eligible costs for fundamental research and shall not exceed 80% of eligible costs for industrial research and experimental development; (d) aid beneficiary shall commit to grant non-exclusive licences under non-discriminatory market conditions to third parties in the EEA.

[17] Conditions include, namely, that (a) aid is granted in the form of direct grants, tax advantages or repayable advances by 31 December 2020; (b) the investment project shall be completed within six months after the date of granting the aid; (c) eligible costs are the investment costs necessary for setting up the testing and upscaling infrastructures required to develop the products and the aid intensity shall not exceed 75% of the eligible costs; (d) the price charged for the services provided by the testing and upscaling infrastructure shall correspond to the market price.

[18] Conditions include, namely, (a) aid is granted in the form of direct grants, tax advantages or repayable advances by 31 December 2020; (b) the investment project is completed within six months after the date of granting the aid.

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| | Aid in the form of deferral of tax payments and/or suspensions of employers' social security contributions | Help avoid lay-offs in specific regions or sectors | - Two conditions to be fulfilled [19] |
| | Aid in the form of wage subsidies for employees | Help avoid lay-offs in specific regions or sectors | - A number of conditions to be fulfilled [20] |
| Commission Communication (19.3.2020)<br><br>State aid Temporary Framework (based on Article 107(3)(b) of the Treaty - remedy a serious disturbance across the EU economy)<br><br>General features: | Aid in the form of direct grants, repayable advances [25] or tax advantages up to EUR 800 000 [26] per undertaking; the amendment to the TF adopted on the 03.04.2020 added references to "or other forms such as repayable advances, guarantees, loans and equity" | Enhance liquidity for companies to keep operating | - To be reflected in a "national scheme" and not individual measures<br>- Several conditions to be fulfilled [27] |
| | Aid in the form of subsidised State guarantees to loans | - For debtors, it would facilitate liquidity and reduce liquidity constraints due to capital or interests payments on loans already taken up with banks<br>- For creditors, it would alleviate default risks on loans (thus | - In the form of individual State guarantees or guarantee schemes<br>- Instrument available to cover both investment and working capital loans<br>- Several conditions to be fulfilled [28] |

[19] Conditions are that the aid shall be granted before 31 December 2020 and the end date for the deferral shall not be later than 31 December 2022. This type of aid is not covered by the mandatory transparency generally imposed on Member States.

[20] Conditions include namely (a) aid is granted in the form of schemes to undertakings in specific sectors, regions or of a certain size that are particularly affected by the COVID-19 outbreak; (b) wage subsidy is granted over a period of not more than twelve months after the application for aid, for employees that would otherwise have been laid off; (c) the monthly wage subsidy shall not exceed 80% of the monthly gross salary (including employer's social security contributions) of the benefitting personnel; (c) this type of aid may be combined with others such as other generally available or selective employment support measures and tax deferrals. This type of aid is not covered by the mandatory transparency generally imposed on Member States.

[25] Repayable advances was not foreseen in a previous draft of the Communication.

[26] A draft version of the Communication foresaw an amount of EUR 500 000.

[27] Conditions are, in general: (a) the aid does not exceed EUR 800 000 per undertaking (gross amounts); (b) the aid is granted in the form of a scheme with a defined budget; (c) aid available to undertakings which were not in difficulty on 31.12.2019 but entered in difficulty thereafter as a result of the COVID-19 outbreak; (d) the aid is granted no later than 31 December 2020. In addition, for agricultural, fisheries and aquacultural sectors there are specific conditions. A previous draft of the Communication foresaw as additional conditions that (i) the aid is not for export-related activities towards third countries or Member States, namely aid directly linked to the quantities exported, to the establishment and operation of a distribution network or to other current expenditure linked to the export activity; (ii) the aid is not contingent upon the use of domestic over imported goods; (iii) information required in Annex III of the Commission Regulation (EU) No. 651/2014 of 17 June 2014 is published on the comprehensive State aid website for each individual aid within 6 months from the moment of granting. The aid could only be given until 30 September 2020.

[28] The conditions include namely (a) a range of guarantee premia from 25 to 100 bp to SMEs and 50 to 200 bp for large undertakings for loans ranging from 1 year to 6 years; (b) guarantee to be granted by 31 December 2020 at the latest; (c) loans with maturity beyond 31 December 2020 have a ceiling on capital (that can be overcome); (d) aid available to undertakings which were not in difficulty on 31.12.2019 but entered in difficulty thereafter as a result of the COVID-19 outbreak A previous draft Communication provided for more restrictive conditions, namely setting more stringent guarantee premia, shorter maturities, a fully applicable cap on the amount of the loans and a shorter window for grating the guarantees.

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| - Requirements on transparency<br>- Available for companies that faced difficulties after 31 December 2019[21]<br>- suspension of "one time last time" principle<br>- Complementary to current existing state aid instruments[22] and to measures outside the scope of state aid[23]; the various measures can apply concomitantly to any undertaking[24]<br>- framework to apply up to 31 December 2020<br><br>Publication in the OJ on 20.03.2020 (in all languages) | | reducing levels of "potential" NPLs) . | |
| | Aid in the form of subsidised interest rates on private or public loans to undertakings (loans granted by banks or other financial institutions). | Facilitate access to liquidity and clarify a number of safeguards for financial institutions that channel support to the real economy. | - Aid can be channelled through banks without triggering state aid[29];<br>- Provide guidance on how to minimise any undue residual aid to banks and to make sure that the aid is passed on, to the largest extent possible, to the final beneficiaries[30];<br>- When there is a legal obligation to extend the maturity of existing loans for SMEs no guarantee fee may be charged;<br>- Direct (and residual indirect) aid to banks under Article 107(2)(b) TFEU to compensate for damages resulting directly from the COVID-19 outbreak not to be considered as extraordinary public support under State aid rules. |
| | Short-term export credit insurance. | Allow covering marketable risks by export-credit insurance with the support of Member States. | - Member States to demonstrate that private insurance is not available[31]<br>- On 27 March 2020 the Commission removed all countries from the list of "marketable risk" countries under the Short-term export-credit Communication[32]. Reasoning in the press release reflected in point 18 (a) of the underlying Communication, namely an insufficient capacity of the private insurance market to cover all |

[21] The amendment to the Temporary Framework adopted on the 03.04.2020 clarified that aid is not available to companies that were already in difficulties at that relevant date.

[22] Namely, the General Block Exemption Regulation, aid schemes on the basis of Article 107(3)(c) TFEU – under the Rescue and Restructuring State aid Guidelines - to meet acute liquidity needs and support undertakings facing financial difficulties, and individual aid measures as appropriate. The Commission Communication refers in particular that the Commission can analyse under Article 107(2)(b) TFEU Member States' compensation for sectors particularly hit by the outbreak (e.g. transport, tourism, culture, hospitality and retail) and/or organisers of cancelled events for damages suffered due to and directly caused by the outbreak (point 15).

[23] For an overview of possible such measures, please refer to the Commission Communication of 13 March 2020 (i.e., measures applicable to all undertakings regarding wage subsidies, suspension of payments of corporate and value added taxes or social welfare contributions, or financial support directly to consumers for cancelled services or tickets not reimbursed by the concerned operators). Such measures are also referred in point 12 of the Commission Communication.

[24] Point 20 in Commission Communication. The amendment to the Temporary Framework adopted on the 3 April 2020 has, nevertheless, clarified that some measures cannot be combined to a certain extent (see new point 20).

[29] Meaning that if aid referred in the Communication is granted through banks, it will not amount to extraordinary public financial support for the purposes of the BRRD and SRMR

30 In the form of higher volumes of financing, riskier portfolios, lower collateral requirements, lower guarantee premiums or lower interest rates.

[31] Condition to be considered fulfilled if (a) a large well-known international private export credits insurer and a national credit insurer produce evidence of the unavailability of such cover; or (b) at least four well-established exporters in the Member State produce evidence of refusal of cover from insurers for specific operations. No reference was made to export credit insurance in a draft Commission Communication.

[32] It enables Member States to make available public short-term export credit insurance in light of the increasing insufficiency of private insurance capacity for exports to all countries in the current coronavirus crisis.

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| | | | economically justifiable risks in all countries concerned by the current coronavirus crisis. |

BRIEFING

# Thematic Digest on EU Economic Governance Review

This document presents the summaries of some papers in the area of EU economic governance, recently published by the European Parliament upon a request of the Economic and Monetary Committee (ECON).

The thematic papers presented in this digest provides hopefully information and suggestions which will be useful for the on-going debate among policy makers, namely on the review of the EU legal framework for economic governance. They are written by external experts and supervised by the Economic Governance Support Unit.

The papers deal with following subjects:

- The **role of 'green public investment' in the EU fiscal rules**. Papers written by the following authors: *C. Cottarelli*; *A. Pekanov and M. Schratzenstaller*; and *P. van den Noord*.
- The **review of the Stability and Growth Pact**, notably the role of expenditure benchmarks and public investments. Papers written by the following authors: *D. Gros and M. Jahn*; *W. H. Reuter*; and *Z. Darvas and J. Anderson*.
- The **review of the Macroeconomic Imbalances Procedure**, notably lessons learned of its application. Papers written by the following authors: *A. Bénassy-Quéré and G. Wolff, L. Codogno;* and *A. Kriwoluzky and M. Rieth*.

The hyperlink on the PE number of the papers listed in this document takes to the published version. All papers are also available on the ECON homepage.

The *Economic Governance Support Unit* provides expertise in view of supporting the European Parliament and its relevant committees and bodies, notably in their scrutiny-related activities on economic governance and banking union. EGOV is part of the Directorate-General for Internal Policies of the Union (DG IPOL).

ECONOMIC GOVERNANCE SUPPORT UNIT (EGOV)
Author: Donella Boldi
Directorate-General for Internal Policies
PE 651.361 - October 2020

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| PE 651.364 | ***The role of fiscal rules in relation with the green economy***<br>**Author: Carlo Cottarelli**<br>**Contact persons in European Parliament:**<br>**Cristina Dias (EGOV)**<br>**Christian Scheinert (Policy Department A)** |
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| | *This paper discusses the analytical basis for facilitating green public investment under the SGP. It concludes that additional public debt created by deficit-financed green public investment is likely to increase fiscal sustainability risks. However, such additional risks could be justified to avoid the economic damages (which would also have long run consequences for public finances) arising in the absence of sufficient green public investment. The trade off could be improved if green public investment were financed through EU debt.* |

The paper discusses the analytical basis for facilitating green public investment under the Stability and Growth Pact (SGP) fiscal rules. As a starting point, the author defines *green public investment* as public investment in the areas considered to be "green" in the "taxonomy" included in the final report of the EU Technical Expert Group on Sustainable Finance where *investment* includes other forms of public spending that have favorable environmental effects (including some current spending).

The author addresses green public investment from the perspective of whether the SGP rules should be relaxed to allow deficit-financed green public investment. He argues that while the theoretical case could be allow to exclude green public investment from the SGP ceilings, there is no evidence that green public investment that is financed by issuing public debt involves lower costs in terms of roll over risks and of potential growth rates with respect to other priority forms of public spending. As such, the rationale for a "preferential treatment" of green public investiment is to be found elsewhere. The author points to the "newness" of the global warming challenge, where the costs arising from global warming are an additional factor that may justify accepting a higher degree of risk arising from public debt and fiscal deficits.

The author then focuses on the possible options allowing a different treatment of green public investment under the SGP rules. He suggests consideration of:

(a) relaxing the overall fiscal deficit ceilings;

(b) introducing a specific flexibility clause allowing more green public investment, up to a certain level;

(c) tightening existing ceilings, while allowing them to be exceeded as a result of green public investment;

(d) the possibility of a temporary flexibility clause allowing additional deficit and debt for a limited number of years, so as to allow a "green public capital stock" to be built; and

(e) financing and approving more green public investment at the European Union budget level (in line with the Next Generation EU).

A number of additional considerations relating to needed adjustments in the Medium Term Objectives (MTOs), and the pace of convergence towards the MTos, the expenditure benchmark and the public debt ceiling, are discussed as well. The author advises involving external experts in decisions excluding certain investment projects from the fiscal ceilings, namely by the Expert Group that prepared the taxonomy.

| PE 614.524 | ***The role of fiscal rules in relation with the green economy***<br>**Authors: Atanas Pekanov and Margit Schratzenstaller**<br><br>**Contact persons in European Parliament:**<br>**Cristina Dias (EGOV)**<br>**Christian Scheinert (Policy Department A)** |
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| | *This study argues that to achieve the necessary green transition in the EU, additional public investment by Member States will need to be mobilised throughout the next decade. In light of the macroeconomic environment of very low interest rates, this calls for a reform of the EU fiscal framework. The paper discusses three approaches for a reform of the fiscal rules to better reflect the need for higher (debt-financed) green public investment: (1) an exemption clause for green public investment; (2) the implementation of a green golden rule; (3) a country-specific benchmark share of government expenditures dedicated to green public investment recommended by the European Commission.* |

The European Union has set high on its policy agenda the goal of transforming the EU economy in an environmentally sustainable way. In light of the substantial resources required to finance the necessary green transition, private investments need to be re-directed accordingly, and additional public investments by Member States will need to be mobilised throughout the next decade. The current fiscal framework of the European Union, the Stability and Growth Pact (SGP), does not provide enough flexibility for Member States to react adequately to these challenges by increasing debt-financed green public investment (GPI). Public investments are often very pro-cyclical – they are reduced during economic downturns, and are therefore susceptible to short-run fluctuations, making it difficult to bind them to long-term goals such as combating climate change.

The study comes up with the following key recommendations:

1. Additional green public investment at the Member State level, at least partially debt-financed, will be needed to address the climate emergency as a central priority for the current EU political cycle. The fiscal framework will need to be reformed to better accommodate green public investment to achieve this goal.

2. Three different approaches to amend the current fiscal framework to better address climate challenges and ensure the necessary green public investment offer themselves:

• expansion of the investment clause in the Stability and Growth Pact to include green public investment

• introduction of a "green golden investment rule"

• a benchmark for green public investment amounting to a pre-determined share of the government expenditures.

3. At least one of these approaches should be followed through to enable the flexibility of national budgets to ensure a level of green public investment which – together with private resources – is sufficient to close the existing green investment gaps.

4. Implementation could be top down via the European Semester or bottom up within Member States' Resilience and Recovery Programs prepared to receive funds from the COVID-19 EU Recovery Instrument. A balanced approach between the two implementation strategies should be pursued.

5. A green taxonomy specifying areas and projects for green public investment should be elaborated as the basis for such a coordinated approach.

| PE 651.382 | ***The role of fiscal rules in relation with the green economy - A new start after the outbreak***<br>**Author: Paul van den Noord**<br>**Contact persons in European Parliament:**<br>**Cristina Dias (EGOV)**<br>**Christian Scheinert (Policy Department A)** |
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| | *According to this study the fiscal framework in principle provides sufficient flexibility to accommodate the call on government budgets from the European Green Deal – even in the very challenging fiscal landscape that is currently unfolding. However, it also observes that for this to hold in practice a number of conditions must be met, including a strong design of policies, a careful assessment of their budgetary impact and the integration of the relevant governance processes.* |

Against the backdrop of the European Green Deal (which calls for reviewing the EU Fiscal governance rules) and the dramatic fiscal impacts of the COVID crisis, the study examines how the fiscal framework could facilitate the ambitious plans for green investment stemming from the European Green Deal while securing sustainable public finances. It looks into three strands of practical issues:

- The repercussions of green investment for government budgets, deficits and debt;
- The flexibility in the fiscal rules available to accommodate these repercussions; and
- The implications for fiscal governance – including coordination, surveillance and enforcement.

The authors' overarching conclusion is that, in principle, sufficient flexibility is available in the current fiscal framework to accommodate the call on government budgets from the European Green Deal – even in the very challenging fiscal landscape currently unfolding. However, to that end, the following conditions must be met:

- The emphasis of fiscal action should be as much as possible on loans, equity injections and guarantees, as opposed to grants and subsidies;
- The "leverage" of the amount and quality of green investment triggered by government support required to achieve the climate goals needs to be maximised to keep the need for a socially costly tax increase and spending cuts as small as possible;
- The plans developed under the European Green Deal as laid down in the National Energy and Climate Plans (NECPs) should specify to what extent programmes are vetted for EU co-funding, indicate what part of the plans would be funded by the national governments and where these would appear in the general government account. Such NECPs should be better reconciled with the Stability and Convergence Programmes;
- These repercussions ultimately should feed into the country-specific Medium-Term Budgetary Objectives (MTOs), consistent with the requirement of sustainable debt and the clauses allowing temporary deviations from (the adjustment path towards the) MTO to finance investment should be invoked to frontload green public investment.

The author argues that since sustainable public finances can never be achieved when climate risks undermine economic activity these need not be conflicting objectives. However, fiscal resources to green the economy unavoidably compete for scarce resources with other legitimate policy goals, now and in the future, and therefore should be employed cautiously. Insofar as the planned green investment effort pursuant to the European Green Deal involves government budgets, the EU fiscal framework is more relevant than ever.

| PE 614.523 | ***Benefits and drawbacks of an "expenditure rule", as well as of a "golden rule", in the EU fiscal framework*** <br> **Authors: Daniel Gros and Marvin Jahn** <br> **Contact persons in European Parliament:** <br> **Jost Angerer and Alice Zoppè (EGOV)** |
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| | *In the current crisis, all fiscal rules have been suspended. When the economy recovers, both expenditure and structural balance rules will be more difficult to apply, as both the level and growth of potential output will become even more uncertain. Focussing on reducing high debt levels might at that point be more appropriate.* <br> *The economic argument for a golden rule is that debt can be used to finance the creation of public capital. But this implies that any golden rule should only exempt net investment, which is much lower than the gross investment.* |

Literature shows that uncertainty about both the level and growth of potential output constitutes the Achille's heel of structural deficit rules and the expenditure rules, respectively.

Most of the existing literature on expenditure rules assumes either explicitly or implicitly that demand shocks constitute the dominant source of uncertainty about output, implying that the medium-term growth rate of potential output is rather stable. But this might not be the case in reality. The estimates for medium term potential GDP growth of the Commission are also subject to substantial revisions, much as estimates of the structural balance. The advantages for expenditure rules over structural balance rules might thus have been limited, even before the start of the current crisis.

Since the outbreak of COVID-19, all EU and national fiscal rules have been suspended for the time being. The debate about expenditure rules and cyclically adjusted balance rules will need to be reassessed once the full impact of the current crisis is known. What can be anticipated with confidence is that the post-crisis environment will imply higher both public debt and expenditure generally, not only in the health sector. Existing expenditure rules start from a baseline under which expenditure is allowed to grow along with potential GDP (thus keeping the ratio of expenditure to GDP constant). This baseline is then adjusted downward for the need to reduce debt levels. In a post–COVID-19 environment, one might have to introduce another adjustment for an unusually high starting level of expenditure, thus complicating the application of an expenditure rule. Rules based on cyclically adjusted deficits might also become more difficult to apply, because the usual methods to measure the output gap will be affected by the current crisis as well. But expenditure rules might face a similar problem in estimating the post–COVID-19 potential growth rate.

Golden rules relating to investment usually stipulate that governments should only borrow to finance investment, not expenditure in general. The economic argument for such a rule is that the creation of public capital can be financed by debt since this capital should yield a return that can support debt service. The returns from public capital do not have to come in the form of direct revenues, such as user charges, but can also come from higher growth, which increases tax revenues. The argument that capital creation can be financed by debt is often read as implying that all investment spending should be exempted from the computation of the deficit. But, from an economic point of view, this is a misunderstanding because public capital creation, i.e. the increase of the public capital stock, must take into account the wear and tear that reduces the value of capital. This depreciation of the public capital stock is taken into account in the "net capital formation" indicator, not in the indicator of "gross fixed capital formation". For most Member States, gross fixed capital formation of general government is typically in the range of 2.5% - 3% of GDP; meanwhile, net capital formation is usually in the range of +/-0.5% of GDP. Any golden rule should thus be based on net (not gross) investment spending. The use of this indicator in the "golden rule" would provide a strong incentive for a government to undertake - at least - the maintenance expenditure needed to keep the capital stock intact. In practice, this could be achieved by deducting negative net investment from the allowable deficit.

| PE 645.732 | ***Benefits and drawbacks of an "expenditure rule", as well as of a "golden rule", in the EU fiscal framework***<br>**Author: Wolf Heinrich Reuter**<br><br>**Contact persons in European Parliament:**<br>**Jost Angerer and Alice Zoppè (EGOV)** |
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| | *Focusing the EU fiscal framework on an expenditure rule could help to increase transparency, compliance and ownership. In various other respects, like estimation errors or counter-cyclicality of prescribed fiscal policy, an expenditure rule is similar to a structural balance rule. If the EU decides to go beyond the current focus on fiscal aggregates, a two-rules system aimed at safeguarding specific expenditures could be placed at the centre of the EU fiscal framework. The key challenge is to define and measure the protected expenditures.* |

This paper discusses two possible avenues for reforming the EU fiscal framework: focusing the framework on an expenditure rule to reduce complexity, and introducing a golden rule to safeguard specific public expenditures. An overarching challenge when reforming the EU fiscal framework is to increase compliance with its fiscal rules: even the best-designed rules are no good if they are not complied with, or if the leeway granted by these rules is not used where it would be advisable. A more transparent, more predictable and less complex fiscal framework could make a significant contribution to enhancing compliance and the role of fiscal rules. The most important lever is to increase national governments' ownership, as well as the visibility of rules for politicians, the general public and the media. The benefits of expenditure rules are often discussed in comparison to observed fiscal policy, but not in relation to other possible rules or rule designs. As fiscal policy is often chosen not purely in line with the limits set by fiscal rules, however, analysing observed fiscal policy to evaluate the current fiscal framework might be misleading. For example, both expenditure and structural balance rules *per se* would have prescribed a more counter-cyclical fiscal policy in the EU over the past few decades. Expenditure rules are similar to structural balance rules in various respects. Like structural balance rules, they are associated with significant challenges when forecasting and estimating the variables necessary for their operationalisation. These errors are substantial and biased in the case of variables required to operationalise structural balance rules. They are smaller, although still significant, and less biased, in the case of expenditures. However, the operationalisation of expenditure rules also requires other variables, such as the measure of discretionary revenue, which involve cumbersome estimates and are associated with a high degree of uncertainty. The main advantages of expenditure rules are that the constrained variable is more directly controlled by governments, it is more transparent and the ceiling set by the rule for fiscal policy is less volatile.

This paper discusses also options of golden rule, which would allow debt issuance to finance specific expenditure categories. There is a concern that needs to be addressed first, namely that such a rule would go beyond the current focus of the EU fiscal framework on fiscal aggregates and would distinguishes between different expenditures in Member States. The main challenge when introducing a golden rule is to clearly and narrowly define the deductible expenditures. Ideally, each spending decision involves a cost-benefit analysis and a subsequent decision to engage, irrespective of the category it belongs to. One proposed workaround is to identify expenditure categories which on average exhibit certain growth effects or future benefits. This identification, however, can be very difficult in practice. Furthermore, governments need to be prevented from using 'creative accounting' to shift other expenditures into the defined deductible categories. Addressing the bias of politicians towards too low investment expenditures does not remove the bias towards excessively high deficits in general. Furthermore, long-term fiscal sustainability still implies that there is a limit to the amount of annual debt issuance, which, however, might be higher with a golden rule. This suggests that a cap should be set on the amount of expenditures that is deductible, which would result in a system of two rules: one setting a limit on total expenditures (deductible and non-deductible) and a second one setting a lower limit on the non-deductible portion of expenditures.

PE 645.733

**_New life for an old framework: redesigning the European Union's expenditure and golden fiscal rules_**

**Authors: Zsolt Darvas and Julia Anderson, Bruegel**

**Contact persons in European Parliament:**

**Alice Zoppè and Jost Angerer (EGOV)**

*In the context of the review of the EU economic governance framework, this study recommends a multi-year ahead expenditure rule, anchored on an appropriate public debt target, augmented with an asymmetric golden rule that provides extra fiscal space only in times of a recession. An improved governance framework should strengthen national fiscal councils and include a European fiscal council, while financial sanctions should be replaced with instruments related to surveillance, positive incentives, market discipline and increased political cost of non-compliance.*

The paper presents the following findings:

- In accordance with EU law, the expenditure benchmark (EB) is subordinate to the structural balance (SB). The EB matters only when a country's SB is lower than its medium-term objective (MTO). We find that in practice the SB is always preferred over the EB.
- The Commission adopted a generally lenient approach in cases of conflict between the EB and SB criteria, in the preventive arm of the Stability and Growth Pact.
- Estimates of the structural budget balance are subject to enormous uncertainty, while uncertainty is minor in the estimates of medium-term potential growth.
- Even in 2019, EU general governments' net investment (gross investment minus the depreciation of capital stock) was just a fraction of investment in the USA and in the UK. (as a share of GDP). Some countries with low public debts invest little, which seems to be a political choice not related to fiscal rules. It is an open question whether fiscal rules or market pressure influence public investment in high-debt countries in times of fiscal consolidation.
- The usefulness of the current EU investment clause is questionable.
- The institutional framework for overseeing the rules is as important as the rules themselves.

The authors propose changing the EU fiscal framework to include the following main elements:

- Anchor: five-year ahead or seven-year ahead debt ratio change objective, to be set by a joint effort of the government of the country concerned, the national fiscal council, the European Fiscal Council and the European Commission, and be approved by the Council;
- Operational target: multi-year ahead ceilings for public expenditure corrected for discretionary unemployment expenditure, interest expenditure and discretionary revenue changes;
- Public investment: an asymmetric golden rule that excludes net public investment from the considered expenditure aggregate only in bad times, in a way to create extra fiscal space. This extra fiscal space would be gradually eliminated as the recovery strengthens.
- Current and investment budgets should be separated, and investment costs would be distributed over the entire service-life. Activation of the asymmetric golden rule should not be based on unreliable estimates of the output gap, but on the contraction of economic output, and the opinion of national and European fiscal councils and the European Commission;
- The ceiling for the operational target should be compatible with the debt ratio objective;
- Institutional framework: strengthened independent national fiscal councils with increased minimum standards and establishment of a European Fiscal Council with a structure similar to the European Central Bank's Governing Council, while the Commission remains the institution that proposes recommendations to the Council of Ministers for adoption;

Financial sanctions: to be replaced with various instruments related to surveillance, positive incentives, market discipline and increased political cost of non-compliance; and

A general escape clause: instead of the current general escape clause and the additional complex web of exceptions, a single general escape clause (possibly applied to each member state separately) could be triggered by the Council of Ministers, based on the recommendation of the Commission, which will take into account the opinions of the independent national fiscal council and the European Fiscal Council.

**PE 645.725**

## *How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?*

**Authors: Alexander Kriwoluzky and Malte Rieth**

**Contact persons in European Parliament:**

**Alice Zoppè (EGOV)**

*This paper assesses the effects of the implementation of the Macroeconomic Imbalance Procedure (MIP) on the macroeconomic performance of countries in the EU and the euro area, by analysing the indicators of the "MIP scoreboard" over time. The authors find that the introduction of the MIP led to a decline in current account imbalances and private sector debt and credit flows, but that the overall effects are limited. To strengthen the MIP, the authors support the introduction of the Budgetary Instrument for Convergence and Competitiveness, i.e. a fund that pays grants, conditional on the implementation progress of economic reforms.*

The paper first presents the outcomes of an empirical analysis based on the 14 indicators of the MIP scoreboard. By applying a control/effect model, the authors find that the introduction of the MIP led to fewer breaches of those scoreboard thresholds that predict financial and economic crisis, namely the current account balance, and private sector debt and credit flow. As the economic literature shows that the deterioration of these indicators worsens a crisis, the authors infer that the improvement in these indicators put the countries in the EU and the euro area in better position to prevent a deep economic crisis.

Since the financial assistance during the financial and economic crisis provided to six member States was in three cases motivated by the need to recapitalise the banking sector, and in one case to assist in a balance of payment crisis, on the basis of our analysis the paper claims that parts of the financial assistance could have been avoided, should the MIP have been in place and enforced at the time.

Nevertheless, the introduction of the MIP did not lead to fewer breaches of the threshold for the majority of the headline scoreboard indicators. One reason for this can be poor compliance with the country-specific recommendations (CSRs) underpinned by the MIP.

Recently, in its "Economic Governance Review", the European Commission reported that the degree of CSR's implementation has declined in last years. In order to increase both the compliance with the CSRs and the impact of the MIP, the authors suggests that subsidies should be provided to Member States to this scope, and therefore support the introduction and the implementation of the Budgetary Instrument for Convergence and Competitiveness (BICC). The fund would pay grants to countries that meet the requirements of the country-specific recommendations, adopted by the Council. This fund would increase both the implementation and the importance of the MIP and would mitigate the potentially adverse consequences of structural reforms during the transition period.

Furthermore, the paper advocates to incorporate "green" environmental indicators into the MIP scoreboard.

**PE 645.710**

## *How has the macro-economic imbalances procedure worked in practice to improve the resilience of the euro area?*

**Authors: A. Bénassy-Quéré and G. Wolff**

**Contact persons in European Parliament:**

**Alice Zoppè (EGOV)**

*This paper provides some suggestions on how the Macroeconomic Imbalances Procedure (MIP) could be streamlined and its underlying conceptual framework clarified. Implementation of the country-specific recommendations is low; their internal consistency is sometimes missing; despite past reforms, the MIP continues keeping mainly a country-by-country approach, thereby running the risk of aggravating the deflationary bias in the euro area. The authors recommend to streamline the MIP scoreboard around a few meaningful indicators, involve national macro-prudential and productivity boards, better connect the various recommendations, simplify the language and further involve the Commission into national policy discussions.*

The Macroeconomic Imbalance Procedure (MIP) was introduced in 2011 as part of the 'six-pack' reform of economic governance. It aims to identify, prevent and address macroeconomic imbalances that could adversely affect economic stability in a EU country, in the euro area, or in the EU as a whole.

The empirical analysis provided in this paper shows that:

• The implementation rate of the country-specific recommendations (CSRs) has been declining over time; although imbalances have clearly receded in the euro area and in the EU over 2013-2018, there is no apparent link with the implementation of the CSRs;

• Despite past reforms, the MIP keeps still largely a country-by-country approach, thereby running the risk of contributing to a deflationary bias in the euro area;

• The MIP scoreboard could be simplified with little loss in terms of early-warning performance; some indicators need to be re-defined consistently with the objective of convergence within the euro area;

• The consistency among the CSRs and the recommendations made by the IMF and the OECD varies greatly across countries; the CSRs are less clear on the financial sector than the IMF is, and they are not always connected to the recommendations made by the ESRB;

• The CSRs sometimes lack internal consistency, especially for countries with high current accounts surplus and with respect to the connection with the recommendations to the euro area.

• National policy-makers and experts are often totally unaware of the entire European Semester process. Communication is often done in technical and administrative form – failing to trigger interest in national debates.

The authors suggest the following recommendations:

1. Streamline the scoreboard around a few meaningful indicators; check that they are geared towards intra-euro area imbalances rather than performance vis-à-vis the rest of the world.

2. In the recommendation to the euro area, include a section explaining the strategy to reduce imbalances, the contribution of each Member State being specified.

3. Focus MIP-CSRs on policy actions that can have direct impact on imbalances. Involve national macroprudential authorities and national productivity councils; coordinate the timetable of the European semester with that of ESRB's recommendations;

4. Simplify the language and further involve the Commission into national policy discussions.



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European Parliament

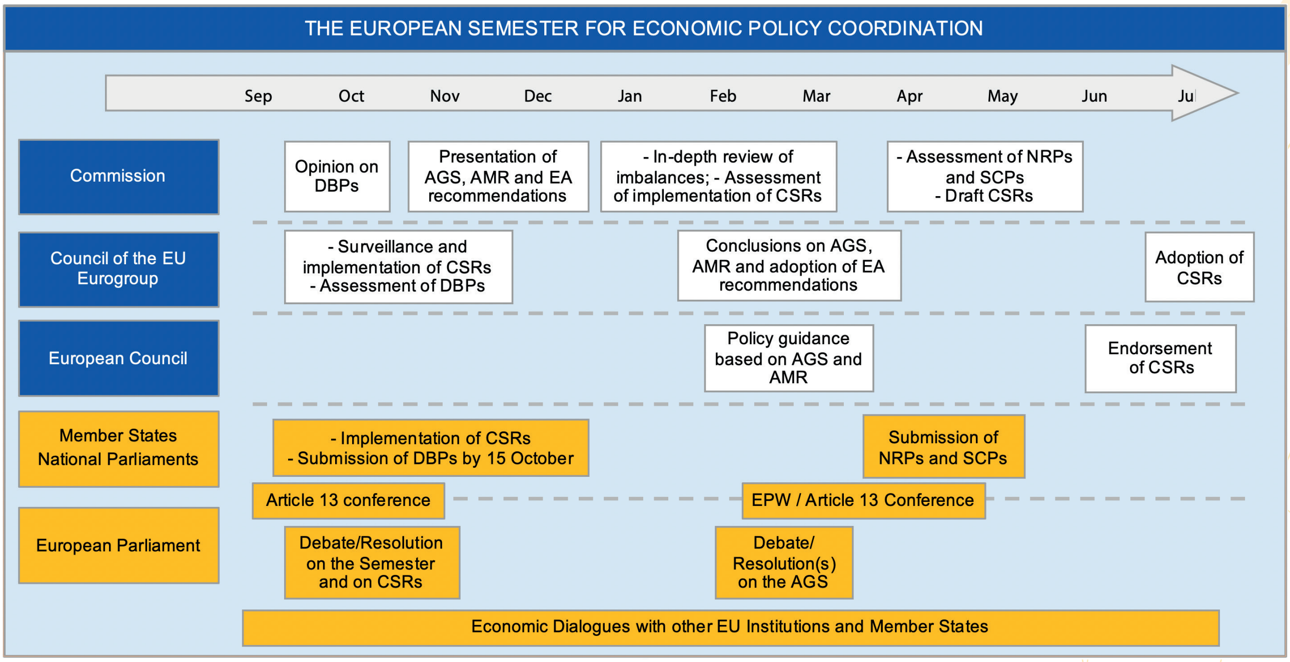
# Multi-level Economic Governance in the European Semester

## Linking administrative experts from EU National Parliaments and European Parliament

## A Parliamentary Project Portfolio (PPP)

# Background

The European Semester for economic policy coordination provides the framework for the coordination of economic policies across the European Union. It allows EU Member States and the European Commission to discuss and coordinate economic and budgetary plans, as well as to monitor progress, at specific times throughout the year.




Since the outset of the financial crisis, the European Parliament and EU National Parliaments are called upon to take an active role in the European Semester, thus reinforcing democratic accountability. For instance, Recital 16 of EU Regulation on *"strengthening of the surveillance of budgetary positions"* reads, *"while taking into account the legal and political arrangements of each Member State, national parliaments should be duly involved in the European Semester and in the preparation of stability programmes, convergence programmes and national reform programmes in order to increase the transparency and ownership of, and accountability for the decisions taken as set out in"* (EU Regulation No 1175/2011).

The inter-institutional co-operation framework between the European Parliament and National Parliaments has evolved in the last years, in particular, through the European Parliamentary Week and the Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the European Union (so called "Art. 13 Conference").These annual events bring together Parliamentarians from all over the European Union to discuss economic, budgetary and social matters.

# A project linking Parliaments

This initiative aims to increase cooperation among Parliament's administrations and to improve technical and analytical knowledge of the European economic governance process, by sharing experiences and identifying best practices.

Increased transparency on the economic and political decisions taken (e.g. by the Eurogroup, ECOFIN and the European Commission) demands adequate knowledge of the procedures and the related policies across all the administrations.

Appropriate scrutiny of the activities related to EU economic governance would benefit from deep involvement of both the EU and national levels. Improved communication and discussions among the parliamentary administrative staff would help to achieve common understanding and objectives of the semester.

# Expected outcomes of the project

The objectives of this project are to:

- Strengthen cooperation and capacity building, at administrative level, in involved Parliaments;
- Improve the understanding of the European Semester process, through knowledge sharing and exchange of best practices, from both the European and the national perspectives;
- Facilitate the setup of the network of technical experts in the national and European Parliaments on the European Semester process/economic governance;
- Empower members of Parliaments to increase the political ownership of the decision taken in the area of the EU economic governance;
- Provide expertise support to joint meeting under the Article 13 conference and the European Parliamentary Week.

This project of the he European Parliament aims at to facilitate and provide a platform for the relevant staff in the EU national parliaments to achieve such common goals.


The COVID-19 pandemic had a tremendous impact on our daily life. All Member States and the EU have pledged large-scale fiscal support to individuals and firms experiencing loss of income with the view to avoid mass layoffs. The Parliaments' role is more vital than ever to pass emergency laws, support recovery measures and scrutinize government actions.

From March 2020 onwards, the staff-to-staff network has widen its tasks to discuss at technical level the economic consequences of the pandemic. Exchange of best practices aiming to support economic recovery including how to best use financial instruments at European and national level.

A virtual interactive platform has been used for sharing information and experiences on how parliament staff can best support parliamentarians in their work on short notice.

## Contact point for the project:

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European Parliament

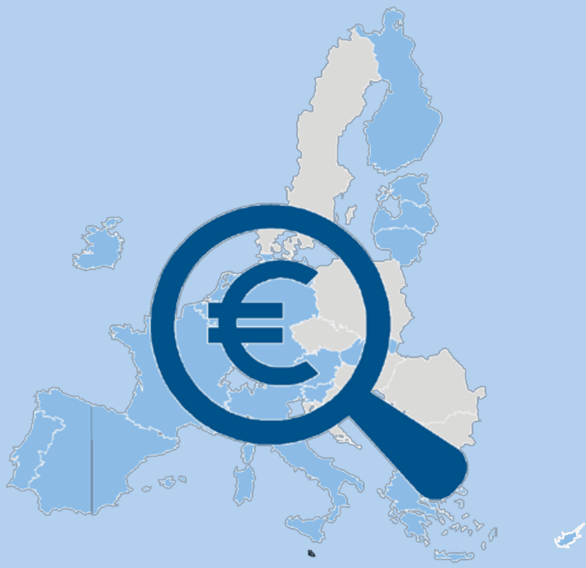
# ECONOMIC GOVERNANCE SUPPORT UNIT (EGOV)

ECONOMIC GOVERNANCE

BANKING UNION

EUROPEAN SEMESTER

SUPERVISION / RESOLUTION



The Economic Governance Support Unit (EGOV), in the Directorate-General for Internal Policies of the Union (DG IPOL), provides expertise in the area of the **economic governance** and **banking union**. It supports the European Parliament and its relevant committees and bodies, notably in their scrutiny activities.

## Economic Governance

EGOV monitors the European Semester for economic policy coordination and provides expertise on the implementation of the related economic governance instruments, including:

- the Country-Specific Recommendations (CSRs);
- the Macroeconomic Imbalance Procedure (MIP), including the In-Depth Reviews (IDRs);
- the Stability and Growth Pact (SGP), including the progress/status with respect to the Medium Term Objectives (MTO) and the Excessive Deficit Procedure (EDP);
- the analysis of the euro area Member States' Draft Budget Plans DBPs);
- Financial assistance to Member States, including macroeconomic adjustment programmes and post-programme surveillance.

## Banking Union

EGOV monitors the Banking Union and its implementation and provides expertise in the area of banking, including:

- Functioning of the Banking Union, developments in the banking industry;
- Banking supervision activities by the Single Supervisory Mechanism (SSM);
- Banking resolution activities by the Single Resolution Board (SRB).

## The role of the Unit

The EGOV Unit prepares briefings in advance of specific committee events, such as Economic Dialogues with the Eurogroup, the European Commission, the Council (ECOFIN) and Member States. Expertise services are provided in advance of accountability hearings with the Chair of the Single Supervisory Mechanism, the Chair of the Single Resolution and, if needed, of Exchange of Views with the executive bodies of the European Stability Mechanism (ESM), the European Systemic Risk Board (ESRB), and the European Supervisory Authorities (ESAs).

In addition to briefings that are drafted internally, EGOV commissions upon request of the competent committee(s) externally drafted briefings and studies in the field of economic governance and banking union. For example, expertise on banking supervision and resolution is provided by a panel of external experts.

The EGOV Unit provides support for meetings with national parliaments in the area of economic governance, as well as committee delegations to EU Member States and abroad. On request, the EGOV team offers trainings to EP staff in its specific areas of competence.

EGOV documents are available on the ECON homepage and the EP Think Tank homepage.

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