IN-DEPTH ANALYSIS

Economic Dialogue and Exchange of Views with the President of the Council (ECOFIN)

ECON on 2 September 2020

Olaf Scholz, Minister of Finance of Germany, is participating in the ECON Committee in his capacity of President of the ECOFIN Council during the German Presidency (July-December 2020). In accordance with the Treaty of the Union, "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council".

This briefing provides an overview of the German Presidency priorities in ECON matters, including the establishment of the new and temporary EU recovery plan, and the Council's work relating to the implementation of the European Semester for economic coordination. It is organised around the following structure:

1. *German ECON priorities*
2. *The EU Recovery Plan and related legislative proposals*
3. *The current economic situation and latest developments on the European Semester*
4. *Banking Union and Capital Market Union (including legislative proposals)*
5. *Tax issues*

1. The ECON-related priorities of the German Presidency

Germany took over the Council Presidency from Croatia on 1 July 2020. Germany last held the Council Presidency in the first semester of 2007. The current Trio of Presidencies also includes Portugal and Slovenia.

Germany's motto for its Presidency is ''*together for Europe's recovery*'', and its programme is guided by six principles: i) overcoming the pandemic permanently, leading to economic recovery, ii) a stronger and more innovative Europe, iii) a fair Europe, iv) a sustainable Europe, v) a Europe of security and common values, and vi) a strong Europe in the world. Another top priority for the German Presidency is concluding the negotiations on the **EU's multiannual financial framework (MFF) for 2021 to 2027**, ensuring that the final MFF reflects both current challenges and the EU's long-term strategic goals.

The German Presidency aims at promoting a European social and economic recovery that is both sustainable and inclusive. Achieving this will require a **green and digital transition** and rapid implementation of the **EU recovery instrument**, within the context of the MFF and European Semester. Strengthening the **single market**, and adjusting the framework for **state aid** is also necessary to achieve a level playing field. Improving the **competitiveness and resilience of EU firms** and strengthening key value chains is another focus. Lastly, the German Presidency considers the **European Unemployment Reinsurance Scheme** *''as an important step in the further implementation of the European Pillar of Social Rights.''*

Economic Governance Support Unit (EGOV)
Authors: C. Dias, A. Zoppè, R. Segall, J. Angerer, K. Grigaite, W. Lehofer
Directorate-General for Internal Policies
PE 651.366 - 31 August 2020

In the area of economic and financial affairs, the German Presidency will also focus on:

- **modernising the EU's tax policy:** achieving progress on a global agreement on digital taxation, introducing a financial transaction tax, revising the directive on administrative cooperation in the field of taxation, and intensifying work on anti-money laundering and terrorist financing.
- **sound budgetary policies:** as soon as the crisis situation abates, and economic conditions permit, Member States should shift back to the medium-term achievement of forward-looking budgets. In reviewing the Stability and Growth Pact (SGP), focus should be *"on the viability of public finances with a view to ensuring the required room for manoeuvre in crisis situations"*.
- **strengthening the Banking Union (BU) and the Capital Markets Union (CMU):** focusing on dismantling barriers to cross border digital financial services, in the context of the Commission's digital market strategy. This will require regulatory adjustments.

Box 1: **Olaf Scholz**

Olaf Scholz (born in 1958) is the German Vice Chancellor and Federal Minister of Finance since March 2018. He prior served as First Mayor of Hamburg from 2011 to 2018. Mr Scholz was a Member of the Bundestag in 1998 -2001, and again in 2002-2011. He also served as the Federal Minister of Labour and Social Affairs from 2009 to 2011. During his time in the Bundestag, he served as First Parliamentary Secretary of the Social Democratic Party of Germany (SPD) parliamentary group from 2005 to 2007, and was Deputy Chair of the SPD parliamentary group from 2009-2011. For a brief period from May - October 2001, Mr Scholz served as Interior Minister of Hamburg.

Mr Scholz was Deputy Chair of the SPD from 2009 to 2019, briefly serving as Acting Chair between February and April 2018. On 10 August 2020, the SPD nominated Mr Scholz as its candidate for Chancellor in the next federal elections.

Mr Scholz qualified as a lawyer in 1985, specialising in labour law.

The Presidency has also published draft Council agendas. The table 1 below highlights some of the items to be discussed in future ECOFIN meetings. In addition, an informal ECOFIN is scheduled for 11-12 September. In parallel, the Eurogroup is also set to discuss the policy response and recovery needs, in accordance with short-term work programme. In October, the Eurogroup will discuss priorities for reform and investment in the euro area.

Table 1: Selected ECOFIN draft agenda items

Date	Selected ECOFIN draft agenda items
06/10/2020	**Legislative**: Deliberate on current financial services proposals; progress report on MiFID and financial indices; exchange of views on crypto-assets; Commission presentation on Digital Finance Package; discussion on remaining legal issues regarding Next Generation EU.
	Non-legislative: Exchange of views on the lessons of the European Semester 2020; adoption of the Council Decisions on the SGP, presentation by the Commission of its CMU Action Plan.
04/11/2020	**Legislative:** Political agreement on administrative cooperation in the field of taxation.
	Non-legislative: Adoption of Conclusions on AML; Commission presentations on the European Unemployment Reinsurance Scheme and Brexit related equivalence decisions; state of play on the Action Plan on NPLs.
13/11/2020	**Legislative:** Discuss the Union Budget for 2021 in the context of the Conciliation Committee.
01/12/2020	**Legislative:** Progress reports on the Banking union, financial transaction tax and crypto-assets; adoption of MiFID and review on financial indices; exchange of views on Basel III; approval of remaining legal issues regarding Next Generation EU.

	Non-legislative: Adoption of Conclusions on digital taxation, the business taxation code of conduct, the digital operational resilience framework, the Action Plan on CMU, and implementation of the Stability and Growth Pact; exchange of views on European Semester 2021, climate finance and the renewed sustainable finance strategy

During the first ECOFIN meeting on 10 July chaired by the German Presidency, Ministers discussed the economic impact of COVID-19 and recovery measures, the final report on the High Level Forum on the Capital Market Union,and the convergence reports published by the ECB and European Commission.

Box 2: Conference on Stability, Economic Coordination and Governance in the EU

In the framework of the German EU Presidency, the Bundestag is organising an Interparliamentary Conference on Stability, Economic Coordination and Governance, which is planned to take place in Berlin 11-13 October 2020. The conference offers parliamentarian the opportunity to engage in a dialogue on the priorities from a parliamentary perspective on the European recovery, the role to be played by the European Central Bank and the role of the European fiscal rules. Members of the European Parliament and members of the national parliaments will also have the opportunity to discuss the latest economic and social consequences of the COVID-19 pandemic and the lessons to be learned from the global pandemic for trade, supply chains and investments.

2. Latest developments on the establishment of a EU recovery plan

2.1 Proposals since May: "Next Generation EU"

On 27 May 2020, the Commission presented its proposals for the EU Recovery Plan. On the basis of the Commission's proposal, the European Council (EUCO) of July 2020 reached an agreement setting out the principles and many details for the implementation of the recovery plan; table 2 shows the numerical outcomes of the European Council conclusions. On 23 July, the EP adopted a Resolution on the EUCO's conclusions, recalling some of its previous positions and defining its expectations for the negotiations going forward. Among these, the Resolution expresses the EP disagreement towards the Council agreement on the 2021-2027 MFF and its intention to withhold agreement until a favourable arrangement is found; and the aim of having new own resources as source of repayment under the recovery instrument. The Resolution also sets out the EP main negotiating position, namely asking for:

- Reinforcement of rule of law enforcement;
- New own resources, agreed and implemented in accordance with a binding calendar;
- Adequate alignment of the political priorities and spending programmes;
- Further improvements to the MFF flexibility provisions;
- Involvement of Parliament in verification that the Recovery and Resilience Facility (RRF) money is well spent, full transparency of all final beneficiaries and accountability of RRF responsible commissioners to Parliament (see further below on RRF); and
- Amendments to the Financial Regulation and the Interinstitutional Agreement on budgetary discipline to enshrine the role of the budgetary authority in authorising external assigned revenue under the annual budgetary procedure.

For most of the legislative acts, the next steps essentially consist of needing to reach an agreement between the Council and the Parliament; more details on the legislative files of relevance for the ECON Committee are provided below.

The legislative package on the EU recovery plan consists of:

- the **funding** part (composed of the Own Resources Decision and the EU Recovery Instrument - EURI Regulation). These two laws make it possible to borrow EUR 750 billion and reach the EU sectoral programmes expressly targeted by the recovery plan.
- the **implementation** part, which is integrated into the Multiannual Financial Framework that sets out the EU budget amounts for 2021-2027, and its related programmes. The Commission had initially proposed the MFF and its programme in May 2018; in May 2020, as part of the Recovery Plan, some old proposals have been withdrawn or amended, and new ones have been proposed, including the Recovery and Resilience Facility.

The Rule of Law regulation is part of the 2021-2027 MFF package (EP co-legislator). Recently, four (EPP, S&D, Renew and Greens) political groups in Parliament wrote to the German Presidency and to the Commission, stressing the importance of reaching a final agreement on this proposal.

The Commission had also proposed a "**Bridge solution**", increasing the 2020 budget for faster recovery funding, by amending the current MFF 2014-2020. The EP expressed readiness to fast-track the processing of the bridge solution, but the July European Council rejected the proposal.
It can also be noted that the **annual EU budget for 2021** has to be negotiated and adopted on the basis of the possible agreements reached on the Recovery Plan.

Table 2: Comparing Commission and EU Summit figures

Recovery Plan / Next Generation EU			
EUR billion 2018 prices	**COM** May 2020	**EUCO** July 2020	**Change** by EUCO from COM
Recovery and Resilience Facility	560	672,5	*+112,5*
of which grants	*310*	*312,5*	*+2,5*
of which loans	*250*	*360*	*+110*
ReactEU	50	47,5	*-2,5*
Horizon Europe	13,5	5	*-8,5*
InvestEU	30,3	5,6	*-24,7*
Solvency Support Instrument	26	-	*-26*
Rural Development	15	7,5	*-7,5*
Just Transition Fund (JTF)	30	10	*-20*
RescEU	2	1,9	*-0,1*
Health programme	7,7	-	*-7,7*
NDICI	10,5	-	*-10,5*
Humanitarian aid	5	-	*-5*
Total	**750**	-	***750***
of which grants	**500**	**390**	***-110***
of which loans	**250**	**360**	***+110***

Source: EUCO Conclusions

1) The **Own Resources Decision** is a basic act that sets the ceilings for commitments, payments and appropriations by the EU and, by increasing such ceilings, empowers the Union to borrow EUR 750 billion on financial markets. The decision also sets out the possible sources of revenue, and is being amended to include new EU own resources. The Own Resources Decision must be adopted by unanimity in the Council and approved by the national Parliaments of the 27 Member States. *The EP is consulted* (art. 311 TFEU). The EP demands a basket of new own resources to be introduced at present (beyond the plastic contribution endorsed by the European Council) and a binding commitment that new sources of EU revenue will be introduced as of 1 January 2021. The draft BUDG report (scheduled to be voted in the BUDG Committee on 1 September) further highlights that Parliament's consent to the MFF should be made conditional on agreeing further new own resources.

2) The **EU Recovery Instrument** (EURI) is the basic act that specifies and allocates the resources from the borrowing operations to a number of EU budgetary instruments, as external assigned revenue (Article 21(5) of the EU's Financial Regulation). The proposed legal basis is Art. 122 TFEU, which provides the EU with the possibility of establishing measures, decided in a spirit of solidarity between Member States, appropriate to the economic situation. The act is a Council Regulation, to be adopted by qualified majority, and the European Parliament is not involved in this legislative procedure. The text sets the breakdown of resources by type of support, establishing the amounts for grants (including financial instruments and provisioning for guarantees) and loans to Member States (EUR 390 billion and EUR 360 billion respectively). In addition, other provisions define the scope of the instrument, devoting it solely to the recovery from the impact of the coronavirus pandemic and detailing the list of measures that can be supported to this end. A number of rules for budgetary implementation limit the time within which the resources can be used, setting 31 December 2024 as the final deadline both for entering the legal commitments giving rise to grant support and for adopting decisions on the granting of loans. A specific provision aims to promote the frontloading of resources, setting that at least 60 % of the amounts earmarked for grants and for some categories of budgetary guarantees must be committed by the end of 2022.

3) The amended proposal for the **Multiannual Financial Framework** (MFF - Council Regulation): sets the limits for EU spending - as a whole and for different areas of activity - for the period it covers (2021-2027). It breaks EU expenditure down into broad categories - 'headings' - which correspond to the EU's priorities and areas of action. For each year covered by the MFF there are fixed limits of expenditure, or 'ceilings'. The consent procedure applies, giving the EP a *de facto* veto.

Each MMF heading includes specific spending Programmes (40 in total), for which the EP is co-legislator *(ordinary legislative procedure).* Below, we list those of relevance for the Recovery Plan, in the sense that they have been proposed and/or amended and/or topped-up as a consequence of the pandemic, and for which ECON is competent jointly with BUDG. See also here (Legislative Observatory, search by Committee).

3-a) **Recovery and Resilience Facility (RRF)**: The bulk of the EURI funds is channelled through the RRF (see table 2). The proposed regulation replaces the Commission proposals on a Reform Support Programme (RSP) and the BICC Governance Regulation (see also EGOV paper), now both withdrawn. The text will be negotiated among the Council and the European Parliament, with the Council's negotiating mandate set by the July EUCO conclusions. Information in the public domain (see here) regarding the upcoming draft report being prepared by BUDG-ECON mentions Members of Parliament's concerns' around reinforcing the European Parliament role in assessing how the funds are spent and in monitoring compliance with the Member States' recovery and resilience plans; the role of conditionality and of the rule of law; and the areas to which investment under the Facility should be directed to.

3-b) **Technical Support Instrument (TSI)**: replaces the Technical Support component of the RSP (withdrawn) and is the successor of the existing Structural Reforms Support Programme. It allows the Commission to provide technical support for improving administrative capacity and implementing long-term structural reforms, namely those addressing the Country Specific Recommendations (CSRs). The Council has agreed on its negotiating mandate on 22 July. 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 to the Parliament and the establishment of a *reform support dialogue*); the setting of specific objectives (in addition to general ones, already described in the Commission's proposal) to be pursued by Member States when requesting access to the TSI; for a stronger link between Member States proposals and the EU policy agenda objectives, the CSRs under the European Semester, the United Nations Sustainable Development Goals and the European Pillar of Social Rights; an increase in the overall envelope available for the TSI (from EUR 864 billion to EUR 1400 billion) 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.

3-c) **Solvency Support Instrument**: the Commission's proposal of May 2020 amends the EFSI Regulation (European Fund for Strategic Investments, also known as Juncker Plan). It aims at mobilising EUR 300 billion for EU companies, starting in 2020 (and until 2024) through the granting of a Union guarantee to the European Investment Bank (EIB) Group, which would provide solvency support that would be a separate component of the EFSI. It also includes the EU's participation in a possible capital increase of the European Investment Fund (part of the EIB group), with a financial envelope of up to EUR 500 million in the revised MMF 2014-2020. The European Council of July 2020 reduced from EUR 26 billion to EUR 0 the contribution from the EURI to the Solvency Support Instrument; nevertheless, a BUDG-ECON draft report has been tabled and the Commission has not withdrawn its legislative proposal. It is now to the Council to agree on a negotiating mandate (thereby opening negotiations with the EP), or let the proposal die. The draft report 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).

3-d) **InvestEU Programme**: the Commission's proposal of May 2020 replaces the corresponding proposal of 2018. The InvestEU is the successor of EFSI, and includes the Strategic Investment Facility, allowing EU participation in capital increase of the EIF. The Commission proposed to increase the initial (2018) allocation with EUR 30 billion from EURI, reduced to EUR 5.6 billion by the European Council. The Parliament draft report is expected to be published early September.

3-e) **Public Sector Loan Facility** (Commission proposal of May 2020). The proposed Regulation provides for the 'Public Sector Loan Facility' to support public sector investments by combining grants financed from the Union budget (implemented by the Commission) with loans granted on preferential terms by the European Investment Bank. 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). The BUDGT-ECON draft report focuses, namely, on reinforcing the European Parliament scrutiny powers and the accountability of relevant players, detailing the criteria for project selection and for their prioritisation, extending the investments to be supported to clean technology and infrastructure and on clarifying criteria for the selection of finance partners other than the EIB.

2.2 Proposals before May: SURE, ESM-PCS, EIB

Support to mitigate Unemployment Risks in an Emergency (SURE): Council Regulation 2020/672 of May 2020 (see also EGOV paper) establishes a new temporary fund of up to EUR 100 billion, to provide loans to Member States on favourable financial terms. Such loans would help Member States to cover the costs directly related to the financing of national short-time work schemes, and other similar measures they have put in place as a response to the coronavirus pandemic. The fund is backed by guarantees provided by Member States; the Commission expects that the process of Member States finalising their guarantee agreements "*will be completed very shortly*".

According to the Commission (press releases of 24 and 25 August), 17 Member States have requested the loan so far. The Commission has proposed to the Council to approve granting support to the following 16 Member States, amounting to €87.3 billion. The Commission further stated in its 24 August press release that "*Portugal and Hungary have already submitted formal requests which are being assessed. The Commission expects to put forward a proposal to grant support to Portugal and Hungary shortly. Member States which have not yet made formal requests may still do so.*". Portugal request was assessed in the meantime and information disclosed in the 25 August press release.

Table 3: Granting of SURE loans

Belgium	€7.8 billion	**Latvia**	€192 million
Bulgaria	€511 million	**Lithuania**	€602 million
Czechia	€2 billion	**Malta**	€244 million
Greece	€2.7 billion	**Poland**	€11.2 billion
Spain	€21.3 billion	**Romania**	€4 billion
Croatia	€1 billion	**Slovakia**	€631 million
Italy	€27.4 billion	**Slovenia**	€ 1.1 billions
Cyprus	€479 million	**Portugal**	€5.9 billion

Source: Commission press releases

ESM Pandemic Crisis Support (PCS): The ESM established a new instrument that provides a precautionary credit line to euro area Member States 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. The available sum, up to 2% of the requiring Member State's 2019 GDP and up to EUR 240 billion in total, will be available until December 2022. See also ESM blog of June (with numbers) and of July ("Why the Covid-19 credit line still makes sense"), as well as the EGOV paper.

EIB Pan-European Guarantee Fund: The fund, agreed by Member States in May 2020, enables the EIB Group to scale up its support for companies in all 27 EU Member States by up to EUR 200 billion. The 27 EU Member States have been invited to contribute to the Fund, which amounts to EUR 25 billion, with a share proportional to their share of EIB capital. The Fund is now operational, as Member States accounting for at least 60% of EIB capital have signed their contribution agreements and a Contributors Committee has been set up.

For a list of the Commission's activities related to the pandemic, see the Commission timeline. A table with the measures taken by Member States against the spread and impact of the coronavirus is available here and is regularly updated by the Commission services. Council-adopted measures are made available here.

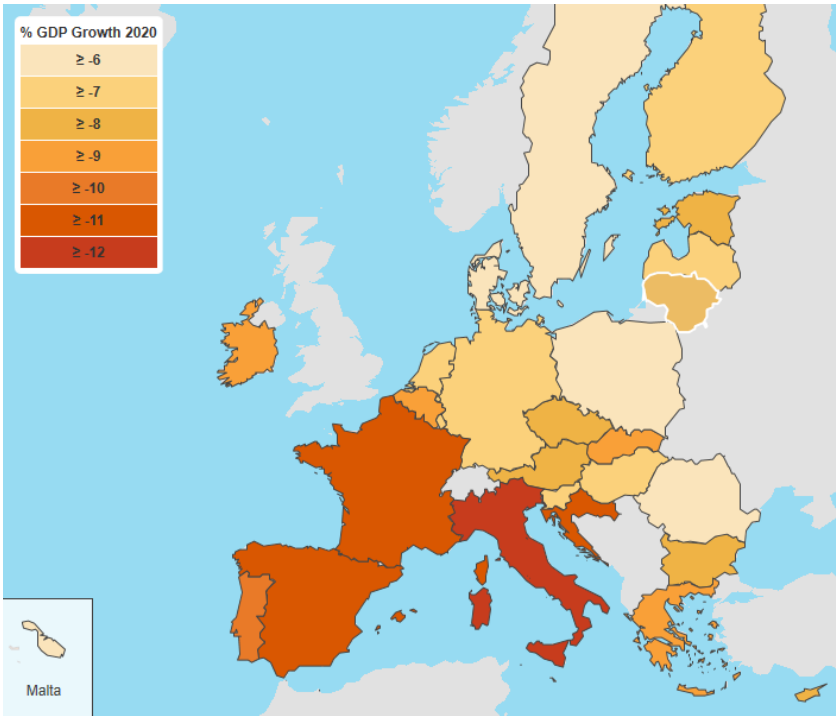
3. Latest developments on the European Semester

3.1 Latest economic developments

According to the European Commission Summer 2020 Interim Economic Forecast, (published in July), the impact of the lock-down on economic activity in 2020 was projected to be more significant than anticipated in spring 2020. As a result, the Commission has revised downwards its growth forecasts from spring and currently projects that the euro area economy will contract by 8.7% in 2020 and grow by 6.1% in 2021, as compared to a contraction of 7.7% (2020) and growth of 6.3% (2021) projected in spring for the euro area.

A string of indicators suggests that the euro area economy operated at between 25% to 30% below capacity during the period of the strictest confinement.

Figure 1. EU economic forecast map for 2020



Source: European Commission (July 2020).

However, forecasting economic activity has been more difficult than during normal times. In addition, the Commission stressed in its July forecast that the **risks surrounding the growth projections** continue to be pronounced and interconnected, leaving the balance of risks still tilted to the downside. The major risk is a new wave of infections which would falsify one of the key assumptions of this forecast. More permanent scars from the COVID-19 induced economic shock represent another major risk as, e.g. more widespread employment destructions and corporate insolvencies would lead to a slower recovery. There are risks to the stability of financial markets and a danger that Member States may fail to sufficiently coordinate national policy responses.

The absence of a deal on the relationship between the EU and the UK as of 2021 (see box 5) remains an important risk (the Commission forecast was based on a purely technical assumption of status quo in terms of their trading relations). On the upside, the Commission's proposal Next Generation EU, which could not be reflected in the baseline at the time when the forecast was estimated, could give a sizable impulse to the EU economy, particularly in 2021.

Table 4. Comparison of Euro Area growth projections

	COM July 2020 (November 2019)			IMF June 2020 (October 2019)			ECB June 2020 (December 2019)			OECD June 2020 (November 2019)		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
GDP Growth (%)												
Euro area	1.2	-8.7	6.1	1.3	-10.2	6.0	1.2	-8.7	5.2	1.3	-11.5	3.5
	(1.1)	(1.2)	(1.2)	(1.2)	(1.4)	(1.4)	(1.2)	(1.1)	(1.4)	(1.2)	(1.1)	(1.2)

Sources: European Commission Economic Forecast Autumn 2019 and Summer 2020; IMF World Economic Outlook, June 2020 update and October 2019; ECB Staff Macroeconomic projections June 2020 and December 2019; and OECD Economic Outlook, June 2020 and November 2019. Note: Forecasts by the four institutions have different "cut-off" dates and are made under different sets of assumptions about policies and underlying economic and financial assumptions and conditions.

According to latest Eurostat information, in the **second quarter of 2020**, the GDP in the EU shrank by 11.7% in seasonally adjusted terms compared with the previous quarter (the GDP contraction in the euro area was more pronounced during the same period and reached 12.1%). Compared to the European Commission Summer forecast, this first estimation of second quarter results are somewhat more positive (the European Commission was estimating the GDP would decrease by 13.1% in the EU and 13.6% in the euro area during the second quarter of 2020).

The Member States with the highest drop in GDP growth in the second quarter were Spain (-18.5%), Hungary (14,5%), Portugal (13.9%), France (-13.8%), Italy (-12,4%), Romania (-12,3%). Belgium (-12,2%), Cyprus (-11,6%). The lowest drop was recorded (for those Member States where data was available) for Finland (-3,2%) and Lithuania (-5,1%).

3.2 The 2020 Country Specific Recommendations

Due to the pandemic crisis, Member States have adopted emergency measures with major budgetary consequences and the Council, based on a proposal by the Commission, has invoked the general escape clause under the Stability and Growth Pact (SGP). Hence the fiscal recommendations as adopted by the Council in July 2019 became not applicable and the fiscal recommendations adopted in July 2020 (for countries under the preventive arm of the SGP) depart from the usual provision of budgetary targets: exceptionally, they focus on the need to implement recovery measures while ensuring debt sustainability. For more information on the public finances, see section 3.3.

On 16 April 2020, as a consequence to the exceptional circumstances, the EU Finance Ministers have agreed, based on a recommendation by the Commission, to the simplification of information requirements for the 2020 European Semester. This is intended to preserve the European Semester's main milestones, while taking into account the challenging times member states are facing. In particular, a streamlined approach was applied for the submission of national reform and stability or convergence programmes (NRPs and SCPs).

On 20 May, the European Commission published the draft 2020 Country specific recommendations (CSRs), that were later adopted by the Council on 20 July. In accordance with relevant EU-law, the Council is expected to approve the CSRs as proposed by the Commission, or explain its amendments publicly. For the 2020 CSRs the Council introduced very few changes.

As it was highlighted by the Council "*this year's country-specific recommendations take into account the specific context of the COVID-19 pandemic and the activation of the general escape clause under the Stability and Growth Pact* ... [the country specific recommendations] *are lighter, more focused and less prescriptive than in previous years. They reflect the following economic priorities: invest in access, effectiveness and resilience of health care; preserve employment and address the social impact of the crisis; focus on research and* *development; ensure liquidity provisions and the stability of the financial sector; preserve the single market and the circulation of goods and services."*

As it was pointed out by the Commission, the European Semester should play a particularly important role in the economic recovery, given the size of the shock and the unprecedented nature of the economic policy measures being adopted by Member States. Ensuring effective economic policy coordination in the EU is of utmost importance. Moreover, the priorities outlined in December 2019 in the Annual Sustainable Growth Strategy remain valid in the context of the pandemic and the Semester allows Member States to discuss their policies (see overview table by the Commission services on national economic policy measures), exchange best practices and agree on a common way forward.

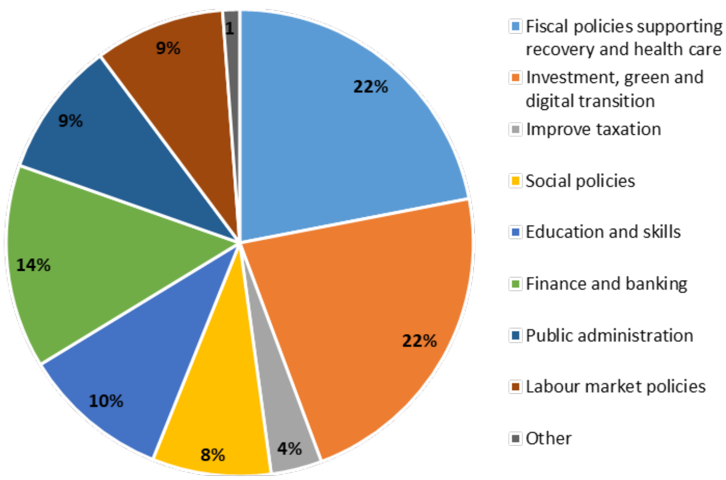
As part of the 2020 CSRs, Member States have been addressed with 3 to 4 CSRs (only Germany has been allocated 2 CSRs and Hungary has been allocated 5 CSRs). However, the adopted CSRs cover many sub-policies and these are not always the same among the Member States. In some cases, sub-recommendations are not placed in the same manner across the CSRs.

For all Member States, the first CSR relates to using the fiscal policy to support recovery, notably the health sector, while safeguarding prudent fiscal policies over the medium term. Due to the activation of the escape clause SGP, the wording for these fiscal policy related CSRs is more or less the same for all Member States, i.e., they do not include country specific fiscal targets.

Nearly all Member States have also been proposed one or more recommendation relating to labour, social and education policies, promoting public and private investments, access to finance for SMEs, and policies relating to public administration, pending their specificities and challenges.

Specifically, one may note that 11 Member States (BG, DK, EE, LV, MT, SE, IE, LU, NL, SK, FI) have been proposed recommendations relating to combating money-laundering, 7 Member States (HR, IT, CY, MT, PL, PT, SK) have been proposed a recommendation on the efficiency and/or independence of the judicial system, and 6 Member States a recommendation relating to policies combating aggressive tax planning (IE, CY, LU, HU, MT, NL). 3 other Member States (AT, FR, LT) were proposed recommendations on other taxation related issues, like an adequate tax mix or simplification of tax.

Figure 2. Policy categories addressed in the 2020 CSRs

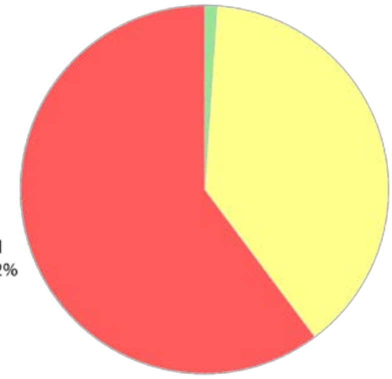


Source: EGOV based on CSRs as adopted by Council.

During pre-pandemic times, Member States showed a mixed track record in implementing the CSRs as adopted annually by the Council. During the years before the pandemic outbreak, the trend in implementing rate has been going downwards albeit improvements in the economic situation.

Member States made at least some progress on almost 40% (37 out of 93) of recommendations under the 2019 European Semester cycle (Figure 3 below), similar to the 2018 Semester cycle, when the corresponding number was 39%. The euro area Member States have had, taken together, a better implementation record than non-euro area Member States (this conclusion does not necessarily hold at individual country level).

Figure 3. Implementation of the 2019 Country Specific Recommendations



Source: EGOV calculations based on the Commission Country Reports (February 2020).
Notes: (1) Based on Commission's assessment of actions taken (rather than outcomes that may materialise with a time lag), assigning identical weights to all CSRs (i.e. irrespective of their institutional and political sensitivities). (2) Calculations abstract from CSRs entirely related to the compliance with the SGP (to be assessed by Commission separately during spring 2020). Consequently, the total number of CSRs covered in this assessment amounts to 93 rather than 97 (see Table 1 overleaf for more details).

3.3 Public finances

All Member States except Romania are currently in the preventive arm of the Stability and Growth pact.[1] Against the background of the activation of the escape clause of the SGP in March 2020 (see Box 3), the wording for these fiscal policy related CSRs includes for all Member States in the preventive arm: "*Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 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 (...)*". The wording differs only slightly compared to the text proposed by the Commission.

Note that many Member States have also triggered national escape clauses to suspend national budgetary rules.

On 20 May 2020, the Commission adopted Excessive Deficit Procedure reports under Article 126(3) of the Treaty for all Member States[2], in which it finds that all Member States do not comply with the deficit criterion (and some with the debt criterion neither). However, the Commission also considered - in light of the pandemic - that at this juncture a decision on whether to place

Box 3: SGP escape clause

An expected severe economic downturn resulting from the COVID-19 outbreak led the Commission to conclude in March 2020 that the economic conditions warrant the activation of the general escape clause. The Finance Ministers of the Member States agreed (also in March 2020) with that assessment. The general escape clause does not suspend the procedures of the SGP. It allows 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.

Specifically, it allows a Member State in the preventive arm to temporarily depart from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. If a Member State is in the corrective arm, the clause implies that the Council may decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory.

[1] Romania is since April 2020 in Excessive Deficit Procedure, for reasons relating to pre-pandemic times.
[2] Except for Romania, which is already in the corrective arm of the Pact.

Member States under the Excessive Deficit Procedure should not be taken.

The Commission will reassess Member States' budgetary situation on the basis of the autumn 2020 Economic Forecast, and the Draft Budgetary Plans to be submitted by euro area Member States by 15 October.

Against the background of the above mentioned procedural framework, the EU Member States have adopted or are adopting budgetary, liquidity and economic policy measures (including schemes approved under temporary flexible EU State aid rules) to increase the capacity of their health systems and provide relief to those citizens and sectors that are particularly impacted; according to current Commission estimates, the national measures amount to EUR 3045 billion. The latest available country-specific overview compiled by Commission services dates from 20 August 2020.

This year, according to the Spring 2020 Commission forecast, the debt-to-GDP ratios of the euro area and the EU are projected to rise substantially: from 86.0% (euro area) and 79.4% (EU) in 2019 to 102.7% (euro area) and 95,1% (EU) in 2020. The two major contributing factors for this development are (1) the recovery measures increasing the primary deficit and (2) the drop in nominal GDP. In 2020, the debt-to-GDP ratio is projected to increase significantly in all EU Member States. For more data relating to euro area Member States, please see separate EGOV briefing: Public finances in Euro Area Member States: selected indicators - May 2020.

Box 4: Latest enhanced Surveillance Report on Greece (May 2020)

Together with the CSRs, the Commission also released its latest enhanced surveillance report on Greece. The report concluded that, considering the extraordinary circumstances posed by the Coronavirus outbreak, Greece has taken the necessary actions to achieve its due specific reform commitments. It also assessed that in addition to directing resources to the implementation of immediate priorities, the Greek containment measures necessary to tackle the Coronavirus outbreak had the side effect of severely affecting reform implementation capacity in the country, especially in areas relying on labour-intensive processes but also those dependent on the functioning of inter-ministerial working groups or legislative or judiciary actions. Looking ahead, the enhanced surveillance report concluded that mobilising resources to step up efforts in areas affected by previous delays, including financial sector reforms, will be important to underpin confidence and support a sustainable recovery.

Similarly to the previous enhanced surveillance reports, the latest one paid particular attention to assessing the implementation of the 16 specific reform commitments by 2022 annexed to the Eurogroup statement of June 2018; progress in these areas serves as a basis to agree on the transfer to Greece of the interest accumulated by the Euro-system on Greek government bonds (so-called "SMP-ANFA income equivalent amounts") and the cancellation of the step-up interest margin on certain EFSF loans. Based on positive reports under enhanced surveillance, these debt measures are made available to Greece in semi-annual tranches up to mid-2022 (see also ESM disclaimer). The latest surveillance report assesses that the necessary conditions for the release of the third tranche of policy-contingent debt measures are considered to be in place. The Eurogroup of 11 June 2020 welcomed the conclusions of the latest enhanced surveillance report. It agreed with the transfer (worth EUR 644.42 million) of SMP-ANFA income equivalent amounts and the reduction to zero of the step-up interest margin on certain EFSF loans (worth EUR 103.64 million). The transfer was done in July 2020 by the EFSF/ESM. It was the third tranche of policy-contingent debt relief measures for Greece. The first tranche, with debt relief amounting to nearly EUR 1 billion, was approved and released in May 2019. The second tranche of EUR 766 million in debt relief was approved and released in December 2019 and January 2020.

More information on Greece and other Member States having received macro-financial assistance by the EU is provided in a separate EGOV briefing.

3.4 Macroeconomic Imbalances

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

Commission assessed whether imbalances or excessive imbalances exist in Member States, 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 in-depth-review, 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, this procedure has never been proposed. For those countries that have been identified as experiencing imbalances, the Commission carries specific monitoring activities on a continuous basis. 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 pandemic crisis disrupted the traditional running of the European Semester. Nevertheless, 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.

The Commission presented on 20 May a Communication on the 28 draft 2020 Country Specific Recommendations. The CSRs prioritise the mitigation of the socio-economic impact of the pandemic and subsequent economic recovery. For Member States experiencing macroeconomic imbalances or excessive macroeconomic imbalances, the CSRs may be partly or totally underpinned by the MIP: among the 45 CSRs targeting the twelve Member States with macroeconomic imbalances, 31 have the MIP as a legal basis.

On 20 July, the Council adopted the 2020 CSRs, after they were endorsed by the European Council.

Further reading:

- Implementation of the Macroeconomic Imbalance Procedure
- The Macro-economic Imbalance Procedure: overview

3.5 Review of the governance framework

In accordance with the so-called "Six-pack" and "Two-pack" Regulations[3], the Commission published in February 2020 a Communication on "Economic governance review". 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.

In the context of the review exercise, the Commission 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

[3] 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".

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 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 ECON Committee has agreed to launch an own-initiative report on the review: *The review of the macroeconomic legislative framework for a better impact on Europe's real economy and improved transparency of decision-making and democratic accountability* (Rapporteur Marques Margarida).

Further reading:

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
- 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.

Furthermore, the ECON Coordinators requested expertise by academic experts on the topic "*Benefits and drawbacks of an "expenditure rule", as well as of a "golden rule", in the EU fiscal* framework". So far, one paper on this topic has been published (some more will be published soon):

- Benefits and drawbacks of an "expenditure rule", as well as of a "golden rule", in the EU fiscal framework? By Daniel Gros (Director of the Centre for European Policy Studies, CEPS) and Marvin Jahn (CEPS)

Likewise, the ECON Coordinators have requested external expert papers on the "*The role of fiscal rules in relation with the green economy*". One of such papers has been published (with more to follow soon):

The role of fiscal rules in relation with the green economy - A new start after the outbreak. By Paul Van den Noord, Amsterdam School of Economics.

4. On-going work related to Banking Union and Capital Markets Union

The deepening of the Economic and Monetary Union has been progressing on the basis of orientations established by the Euro Summit, started in December 2017, and evolving ever since. Progress was based on discussions at the Eurogroup (mostly working in inclusive format, with Finance Ministers of all the EU Member States). Priority areas have been completion of the Banking Union, reform of the European Stability Mechanism (ESM), and the establishment of a budgetary instrument for the euro area (replaced by the RRF, see Section 2). In addition, deepening the Capital Market Union, and strengthening the anti-money laundering and tax framework remain priority areas.

4.1 Completion of the Banking Union

Completing the Banking Union has been a continuous endeavour since the prior Commission and was outlined as a priority for Commissioner von der Leyen in her political guidelines and the Commission's initial 2020 Work Programme. While the adjusted Commission Work Programme does not make mention of the Banking Union, the German Presidency has stated in its work programme it supports *"the continued development of the banking union in order to increase the stability of the financial system and to strengthen the European single market."*

Following the setup of a High Level Working Group on EDIS (HLWG) by the Eurogroup (December 2018) and an initial report in June 2019, the Chair of the HLWG reported back in December 2019 through a letter that proposes a programme for actions in the various dimensions necessary for a fully-fledged Banking Union. Ministers mandated the HLWG to continue working and report back by June 2020. However, this deadline has been pushed to December 2020 in light of the pandemic crisis. For further information see a specific EGOV briefing.

4.2 Capital Markets Union

Despite significant progress since 2015, when the CMU initiative was launched, regulatory and other barriers still hamper smooth movement of capital, investments and related services. The initial 2015 action plan set out a programme of 33 actions (30 of these actions had political agreements by spring 2019, with only few legislative files still open from the original action plan). After the mid-term review of the CMU action plan in 2017, the Commission recalibrated the action plan after a public consultation. However, measures taken so far fall short of what is necessary for a complete and truly operational CMU. Remaining issues include the divergent insolvency regimes across the EU, burdensome cross-border taxation procedures, further strengthening of effectiveness and consistency in supervision, etc.

To further advance CMU, the Commission launched a high-level forum on CMU to identify long-term trends and determine areas where further action are needed. The forum started its work on 26 November 2019 and published its interim report on 20 February 2020. Its final report was published on 10 June 2020, and set out 17 recommendations for removing barriers in the EU's capital market. These recommendations fall under four categories: creating a competitive business environment; stronger and more efficient market infrastructure; fostering retail investments; and fostering a level playing field in the Single Market. The report underlined the importance of CMU in Europe's post-pandemic recovery. The forum's final report will feed into a new Commission CMU Action Plan, expected by end 2020. ECON published its draft report on developing the CMU on 17 June, and highlighted the need to improve SME access to capital markets and enabling retail investor participation.

Ministers discussed priorities to bring CMU forward in the 10 July ECOFIN meeting. Minister Scholz reiterated that strengthening CMU will be one of the priorities of the German Presidency (see section 1).

4.3 Strengthening the Anti-money laundering framework

Under the umbrella of completing the Banking Union, the Commission adopted in May 2020 an Action Plan for a comprehensive EU policy on preventing money laundering and terrorist financing (AML). This follows the December 2019 Council conclusions on strategic priorities regarding AML, inviting the Commission to explore further actions that could enhance the current framework. A September 2019 European Parliament resolution also called for more impetus to initiatives in this policy area. The Action plan builds on the findings of the anti-money laundering package of 2019, and evolves around six pillars: i) effective implementation of existing rules; ii) a single EU rulebook; iii) EU-level supervision; iv) support and cooperation mechanism for financial intelligence units; v) better use of information to enforce criminal law; and vi) a stronger EU in the world. The Commission intends to deliver on these actions by early 2021.

4.4 Financial markets legislative files

A number of new legislative proposals have been initiated in recent months as part of the EU's crisis response. In addition there are several legislative files pending from the previous legislature, for some of which the Council and/or the European Parliament are still missing a negotiating mandate. A detailed list of ongoing files is available at ECON website; work on legislative files can be followed also through the Legislative Observatory.

Recent legislative proposals

- The Commission published a Capital Markets Recovery Package on 24 July containing targeted amendments to the Prospectus Regulation, MiFID II and securitisation rules (by amending the securitisation regulation and the Capital Requirements Regulation), which need to be agreed upon by European Parliament and the Council (co-decision procedures based on article 114 and 53(1) of the Treaty, for the MiFID II)). The proposals reflect amendments aiming to facilitate investments in the real economy, allow for a rapid recapitalisation of companies listed in the EU and maintain and enhance the capacity of banks to lend to the economy, in particular to households and SMEs.

Other legislative work

- Council and the European Parliament do not yet have a mandate on EDIS.
- Council has a mandate, while that of the European Parliament is still pending, on the proposal for a Directive on Credit servicers, credit purchasers and the recovery of collateral (together with the Prudential backstop regulation part of the NPL Package), which was split into two files: one part on credit servicers and credit purchasers and one part on accelerated extrajudicial collateral enforcement (AECE) mechanism.
- The European Parliament has a mandate but the Council has not agreed on the general approach on sovereign-bond backed securities and on country-by-country reporting.
- On central counterparties (CCP recovery) Council and Parliament reached a political agreement last 23 June following technical work between the two institutions suspended due to the COVID 19. Finalisation is pending.
- The crowdfunding package (MiFID II and European crowdfunding package for businesses) are in the final stages of adoption.

Forthcoming legislative work

- As set out in its adjusted work programme for 2020, the Commission is expected to come forward with a number of proposals, namely on crypto assets (Q3 2020) and cyber security (Q3 2020).

Box 5 - Adoption of euro: Bulgaria and Croatia

On 10 July 2020 both Bulgaria and Croatia joined the European Exchange Rate Mechanism II (ERM II) and entered into close cooperation with the ECB (Single Supervisory Mechanism). A minimum of two years of participation in ERMII is one of the prerequisites for adoption of the euro. Joining ERM II is based on the opinions of the ECB and Commission in their "Convergence Reports", most recently published on 10 June 2020.

Bulgaria announced its intention to join ERM II in a letter of 29 June 2018, and requested to establish a close cooperation with the ECB on 18 July 2018. The ECB published on 26 July 2019 the results of its comprehensive assessment where it still found capital shortfalls in two banks under the adverse scenario. As post-entry commitments, Bulgaria will implement, inter alia, policy reforms related to the non-banking financial sector, insolvency and anti-money laundering frameworks.

In its letter of 4 July 2019, **Croatia** stated its intention to join ERMII and enter into close cooperation with the ECB. The results of the comprehensive assessment, published on 5 June 2020 did not reveal any capital shortfalls. In entering into the ERMII and BU, Croatia has further committed to strengthening its anti-money laundering and insolvency frameworks and other necessary reforms.

The ECB is currently assessing which Croatian and Bulgarian banks fulfil the criteria of being classified as significant institutions, with direct supervision of significant institutions starting on 1 October 2020.

Box 6 - Brexit preparedness

The UK is set to become a third country on 1 January 2021, following the end of the transition period. After the seventh round of negotiations (17-21 August 2020), the UK and EU remain deadlocked on issues of state aid, access to the single market and a level regulatory playing field. A further round of negotiations is scheduled for 7 September.

Regardless of the outcome of these negotiations, the provision of financial services will be subject to the relevant third-country rules from next year onwards. The EU may grant a limited number of equivalence decisions, where the regulatory framework is deemed aligned with that of the EU. This is of particular relevance to the areas of central securities depositories and central clearing counterparties (CCPs). A Communication published by the Commission on 9 July 2020 indicated that the June 2020 deadline for concluding equivalent assessments was not met. The Commission, the ECB, SRB and other stakeholders, have identified CCPs of derivatives as posing a possible financial stability risk to the EU. As such, the Commission is considering adopting time-limited equivalences for the UK in this area. The Commission will possibly inform ECOFIN of its equivalence decisions in November (see section 1).

The Commission has published over 100 sector-specific preparedness notices, including in the field of banking and payment services (revised on 7 July 2020) and markets in financial instruments (revised on 13 July 2020.

5. Tax affairs and other issues

5.1 Tax issues

On 15 July the Commission proposed a new Tax Package aiming at making taxation fairer, simpler and better adopted to the modern times, whilst supportive of the fight against fraud and tax avoidance. The tax package is composed of three complementary measures:

- A Commission Communication on an Action Plan for fair and simple taxation supporting the recovery identifying 25 measures the Commission will implement until 2024 to make taxation fairer, simpler and more adapted to modern technologies (including on reducing obstacles and administrative burdens and thus simplify taxation; improve tax compliance; help tax authorities to better manage tax data available);
- A legislative proposal amending the Directive on Administrative Cooperation, to extend the EU tax transparency rules to digital platforms. The proposal foresees Member States to automatically exchange

information on income generated by sellers on digital platforms. Parliament is asked to give an opinion on the proposal;

- A Commission Communication on tax good governance aiming to further strengthen how the EU can promote transparency and fair taxation (including the reform of the Code of Conduct, improvements to the EU list of non-cooperative jurisdictions and the EU's approach to assisting developing countries in the area of taxation).

Among the taxation issues, Germany intends to continue discussing the financial transaction tax (see section 1). The so called "country-by-country reporting" file has also been discussed for some time now and the European Parliament adopted a resolution in October 2019 calling for its swift completion (see state of the legislative file here).

5.2 Other issues

The recently uncovered Wirecard case is sparking concerns around a number of issues and its full impacts are still unknown. As the situation unfolds, its multiple dimensions come to fore: at the level of supervision; the accounting and auditing models and frameworks; anti-money laundering legislation, its control and monitoring; the short selling regulation and its impacts on market stability and liquidity; the payments' institutions legal framework; supervision and landscape in general; rules of conduct and investor protection; ringfencing; and how to address (classify, supervise and regulate) fintech, to name just a few.

So far, the policy response seems to be twofold: in Germany a possible overhaul of the audits/accounting supervisory framework; at the EU level, a search for the causes and flaws that allowed the case to remain unaddressed for so long. In the past, there were other cases that have unsettled the financial markets, like for example the Enron case, which as a consequence led to new regulations and legislation to expand the accuracy of financial reporting for public companies (Sarbanes-Oxley Act). Not too long ago, the Danske Bank money laundering case – where significant amounts of suspicious transactions flowed through the Estonia-based bank branch of Denmark-based Danske Bank and that went undetected for too long – pointed to problems in the design of anti-money laundering supervision if there is a lack of clarity regarding the responsibilities of different national institutions that would need to cooperate for effective prevention. ECON Coordinators have asked for external papers addressing the various angles of the Wirecard case and proposing possible policy recommendations. These are expected by end of October.

Contact: egov@ep.europa.eu

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