IN-DEPTH ANALYSIS

Economic Dialogue with the European Commission on the 2021 European Semester Cycle

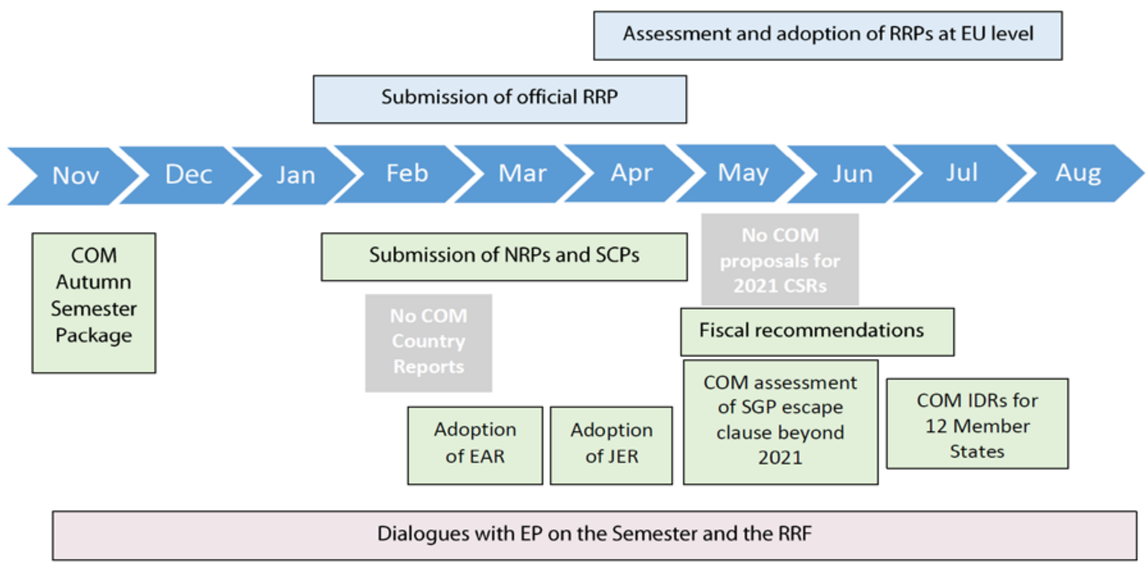
ECON/EMPL on 7 December 2020

Vice-President Dombrovskis and Commissioners Schmit and Gentiloni have been invited to an Economic Dialogue to discuss the 2021 European Semester Cycle, in line with the relevant EU law. Due to the pandemic, the European Semester will look rather different (both in form and substance) to what it was in previous cycles. This document provides an overview on how the various policy instruments comprised in the European Semester have been or are being implemented as part of the EU Recovery Plan, notably the interactions with the proposed Recovery and Resilience Facility.

1. The European Semester cycle in 2021

On 17 September, the European Commission spelled out in the Annual Sustainable Growth Strategy 2021 (2021 ASGS) its views on how the Recovery and Resilience Facility (RRF) would be temporarily integrated in the European Semester framework, while recognising that legislative work on the RRF was still to be finalised. The Recovery and Resilience Plans (RRPs), foreseen in the draft RRF regulation, to be submitted by Member States during spring 2021, will become the main reference document for the Member States' forward-looking economic policy initiatives.

Figure 1: Expected timeline of the 2021 European Semester cycle



Source: EGOV based on 2021 ASGS, 2021 AMR, 2021 EAR, 2021 JER and the draft RRF Regulation.

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The Autumn 2021 European Semester package published by the Commission on 18 November covers the following main policy documents: opinions on the 2021 Draft Budgetary Plans (see section 3 below), the 2021 Alert Mechanism Report (see section 4 below), the proposal for a 2021 Joint Employment Report (see section 5 below), and the proposal for 2021 Euro area recommendation (see section 6 below). In addition, the Commission published the eighth enhanced surveillance report for Greece and post-programme surveillance reports for Cyprus, Ireland, Portugal, and Spain. The package includes also a working document, written by the Commission services, on the implementation of the United Nations Sustainable Development Goals.

The need to mitigate the adverse effects of the pandemic and support economic recovery have implications on the instruments and policy recommendations in the 2020 and 2021 European Semester cycles [1]. The box below summarises some of the (temporary) impacts on the Semester.

Box 1: Main procedural changes to the 2021 European Semester Cycle

- The National Reform Programmes will integrate the national Recovery and Resilience Plans (RRPs);
- The Stability or Convergence Programmes will detail how to maintain fiscal sustainability going forward, in a context where the general escape clause under the SGP is activated;
- The Euro Area Recommendations, together with CSRs and other EU priority policies to support recovery and resilience, will frame the RRP and Member State's reform efforts;
- There will not be country specific recommendations (except on budgetary matters) for Member States that submitted RRPs;
- Analytical documents on the RRPs will replace the Country Reports in 2021;
- In-depth reviews for Member States that are considered at risk of macro-economic imbalances will be published later, in spring 2021;
- The monitoring of reform and investments financed from the RRF in the Semester timeframe and the RRF Regulation are still to be adopted by the co-legislators.

Next steps:

Finalisation and adoption of the RRF Regulation[2].

A debate on the Semester and the Recovery plans with national parliaments will take place on 22-23 February 2021.

The current and incoming Presidency of the Council have prepared a roadmap outlining the key steps of the 2021 European Semester in the relevant Council formations. The roadmap reflects the planned Council proceedings until summer 2021, reflecting as well how to integrate the RRF relevant dimensions.

In addition, the Eurogroup is planning several meetings to discuss the progress on the RRPs.

[1] On 27 May 2020, the Commission presented its proposals for the EU Recovery Plan, including a proposal for a regulation setting out the Recovery and Resilience Facility (RRF). Under the RRF, Member States can benefit of loans and grants to finance structural reforms and fight the impacts of COVID-19. To receive financing, Member States will present Recovery and Resilience Plans (RRPs) proposing a set of reforms and public investment projects. Such projects are to be aligned and assessed against the European Semester relevant recommendations, including the country specific recommendations.

[2] Currently, inter-institutional negotiations are on-going on the RRF Regulation (please see Commission proposal here, the position of the European Parliament (EP) here and the position of the Council here). In addition, the Council still needs to adopt the proposed changes to the EU own resources ceiling as agreed by the European Council, 17-21 July 2020 and the EP on 16 September.

Box 2: Some opinions by external experts on the role of the Semester and the RRF

Manuela Moschella (November 2020) argues that:

The long-standing dialogue and monitoring that takes place within the Semester can also be of help for EU institutions and Member States to identify the areas were implementation challenges are more likely to emerge in the near future and thus to account for them since the stage of preparation of recovery plans. Furthermore, by requiring Member States to present their recovery and resilience plans along with NRPs increase information about the synergies between the reforms and investments that will be financed under the RRF and those that fall within the pre-existing domestic reform and investment agenda. Such information advantage will also help minimize the concern that the RRF financing is going to be used for projects that would be ordinarily financed from national budgets.

Thomas Wieser (October 2020) makes the following point:

The Commission does not indicate what would be the case in the following years. A possibility would be to adopt CSRs each year, including in 2021, so as to make explicit the main objectives of the RRPs of each Member State, thereby also ensuring coherence with the EU objectives set out in the RRF Regulation. In addition, it could be a way to take stock of achievements and, if necessary, provide additional steering to the MS concerned.

Ben Crum (October 2020) stresses that:

However, as appropriate as this is, and as extensive as democratic control may be at the national level, the European dimension is critical to the RRF. The RRF is a European initiative because the money is collected at EU level and allocated in a way that testifies to a sense of solidarity between the peoples of Europe. It is also European because one of its primary concerns is about ensuring cohesion not only within European societies but also across them. And it is European because its main objectives (economic resilience in terms of growth and jobs, and the green and digital transition) have clear transboundary implicate.

Jacob Kirkegaard (October 2020) makes a rather critical assessment:

This paper argues that the inherent political tension between on the one hand the need to stimulate the European economy quickly to overcome the pandemic, and the legitimate desire to ensure that common funds are used according to common strategic priorities and within a robust oversight framework, will invariably be resolved in favour of the former short-term political concern.

Further reading:

- Briefing: The European Semester during the Pandemic - December 2020
- Thematic Digest: "The role for the European Semester in the recovery plan"
- EU/EA measures to mitigate the economic, financial and social effects of coronavirus - latest version

2. The economic and employment situation: latest information

In its autumn economic forecast, the European Commission summarised the economic effects of the pandemic outbreak: *"in the first half of the year, real GDP fell at double-digit rates in both euro area and the EU [...] employment also declined more than ever, although less than what could have been expected, thanks to massive policy support by Member States and the EU"*.

According to the most recent data from the Eurostat, after a drastic GDP decrease in the second quarter of 2020 (the contraction amounted to 11.8% and 11.4% in the euro area and the EU respectively), it has strongly rebounded in the third quarter of 2020, when GDP increased by 12.6% and 11.6% in the euro area and the EU respectively. Nevertheless, economic development in 2020 was not uniform among the Member States, as GDP in some countries was hit much harder than in others.

As an outcome of this pandemic outbreak, the EU labour markets were put under severe strain. During the first half of the year, the registered job losses were unprecedented; nevertheless, the decline was much more contained than the drop in economic activity (in third quarter of 2020 the number of employed persons both in the euro area and the EU increased by 0.9%, after a pronounced decrease during the second quarter of 2020 amounting to 2.9% and 2.7% in the euro area and the EU, respectively).

Given the fact that there is large uncertainty surrounding further development of the pandemic outbreak, as well as strictness and duration of lockdown measures, economic forecasting is complicated and based on many assumptions. Any change in the underlying assumptions can impact the projection outcome both on a positive and negative side. In their latest round of economic projections, international and European institutions project that the GDP decrease in 2020 will range from 7.5% to 8.7% in the euro area, while in 2021 GDP growth is expected to pick up and amount to around 3.6%–5.2% according to different projections.

On 1 December, the OECD published it latest economic forecast. For the euro area as a whole, after a projected GDP decline of 7½ per cent in 2020, growth of 3½ and 3¼ per cent in 2021 and 2022, respectively, will bring output back to its pre-pandemic level only at the end of 2022. Persistent virus outbreaks and accompanying containment measures will continue to hamper activity until a vaccine campaign is widely implemented. Private consumption and investment will be affected the most by pervasive uncertainty and low confidence. Unemployment is projected to rise until mid-2021, approaching double-digit rates, and fall only gradually afterwards. Fiscal support and subdued activity will keep public debt above 100% of GDP. Failure to promote reallocation from declining activities towards those likely to expand would durably worsen growth prospects. These economic projections are the first to take into account the recent announcements of some effective vaccines against the pandemic. For an overview of Member State specific figures, please see the Annex to this document.

Further reading:

Briefing: EU economic developments and projections - latest version

Box 3: Two EU measures to mitigate the effects of the COVID-19 crisis

The EU put forward a number of instruments to help mitigate the effects of the COVID-19 crisis. Two of them (the European Stability Mechanism Pandemic Crisis Support and the SURE are briefly explained below.

On 9 April, the Eurogroup approved the establishment of the **ESM Pandemic Crisis Support** (PCS), a specific and temporary precautionary instrument addressing the crisis-related financing needs of Euro Area Member States (MSs). On 8 May, the Eurogroup agreed on the features and standardised terms of the instrument and on 15 May, the Eurogroup and the ESM Board of Governors finalised the PCS. The PCS is available to all euro area MS and can be used to cover costs related to direct and indirect healthcare, cure and prevention due to the pandemic. The PCS is offered on similar conditions to all euro area MS. No euro area MS has yet applied for the facility.

On 2 April 2020, the Commission proposed to setup an EU instrument for temporary support to mitigate unemployment risks in an emergency (**SURE**), which was published as Council Regulation 2020/672 on 19 May. SURE aims at providing financial support for MS experiencing, or seriously threatened with, a severe economic disturbance caused by the pandemic. The instrument allows the Commission to borrow up to a maximum of 100 billion euro on behalf of the Union. Such borrowing is guaranteed by the Union and by a back-guarantee of (at least) 25 billion euro, provided by all MS.

Financing is provided upon request of the MS concerned, to be decided by the Council, and takes the form of a loan. The only condition for using the SURE instrument is that the MS experience a sudden and severe increase of its public expenditure (actual or planned), as direct consequence of measures adopted directly related to short-time work schemes and similar schemes, caused by the pandemic. Some health-related expenditures can also be financed.

As of 1 December, the Council had approved a total of €87.9 billion in financial support to 17 MS. On 16 November, the Commission proposed financial support of €2.5 billion to Ireland (pending in Council). The latest Commission proposal brings overall financial support under SURE to €90.3 billion. The Commission has already disbursed €39.5 billion to 15 MS (Italy, Spain, Poland, Greece, Croatia, Lithuania, Cyprus, Slovenia, Malta, Latvia, Belgium, Romania, Hungary, Portugal and Slovakia). The third issuance of €8.5 billion social bond was closed on 25 November.

Further reading: The SURE: Main Features; The ESM Pandemic Crisis Support

3. The surveillance of fiscal policies

Activation of the general escape clause

In March 2020, the COVID-19 outbreak led the European Commission to expect a severe economic downturn of the euro area and the EU as a whole and to consider the conditions for the activation of the general escape clause of the Stability and Growth Pact (SGP) as fulfilled. Also in March, the Finance Ministers of the Member States agreed with that assessment, thus providing clarity that the general escape clause has been activated.

The activated clause 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.

Against the background of the activation of the escape clause of the SGP, the wording for the fiscal policy related Country Specific Recommendations (CSRs) adopted on 20 July 2020 includes the following recommendation: "*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 (...)*". In addition, the 2020 CSRs contain country specific elements, notably relating to strengthening the health care system.

On 6 November, the Council (ECOFIN) took note of the Commission intention to propose in 2021 CSRs on the budgetary situation of the Member States, as envisaged under the SGP, as it considered it important to reflect on future fiscal policy orientations. At the same time, the Council underlined that the high uncertainty about the development of the pandemic and its economic and social impact need to be taken into account in fiscal policies.

Note that all Member States except Romania are currently in the preventive arm of the SGP[3] and 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 (EDP) reports under Article 126(3) of the Treaty for all Member States[4], 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 Member States under the EDP should not be taken.

Policy measures and assessments in the context of the general escape clause

Against the background of the above mentioned procedural framework, the EU Member States have adopted 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 about EUR 3 trillion. The latest available country-specific overview compiled by Commission services dates November 2020.

All the Commission opinions on the 2021 Draft Budgetary Plans (DBPs) of the euro area Member States conclude that the DBPs are "*overall in line with the fiscal policy recommendation adopted by the Council on 20*

[3] Romania is since April 2020 in Excessive Deficit Procedure, for reasons relating to pre-pandemic times.

[4] Except for Romania, which is already in the corrective arm of the SGP.

July 2020" and that most of the measures in the DBPs support economic activity against the background of considerable uncertainty.

The Commission points also out: "*For Belgium, France, Greece, Italy, Portugal and Spain, given the level of their government debt and high sustainability challenges in the medium-term before the outbreak of the COVID-19 pandemic, it is important to ensure that, when taking supporting budgetary measures, fiscal sustainability in the medium term is preserved*."

When and how to exit the general escape clause?

On 18 November (as part of its opinions on the 2021 DBPs), the Commission clarified that *"The Commission in the Annual Sustainable Growth Strategy 2021 confirmed that fiscal policy should continue to support the recovery in 2021. In the light of this need and the still high uncertainty about the economic consequences of the pandemic, the general escape clause will remain active in 2021. In spring 2021, taking into account updated macroeconomic projections, the Commission will reassess the situation and take stock of the application of the general escape clause."*

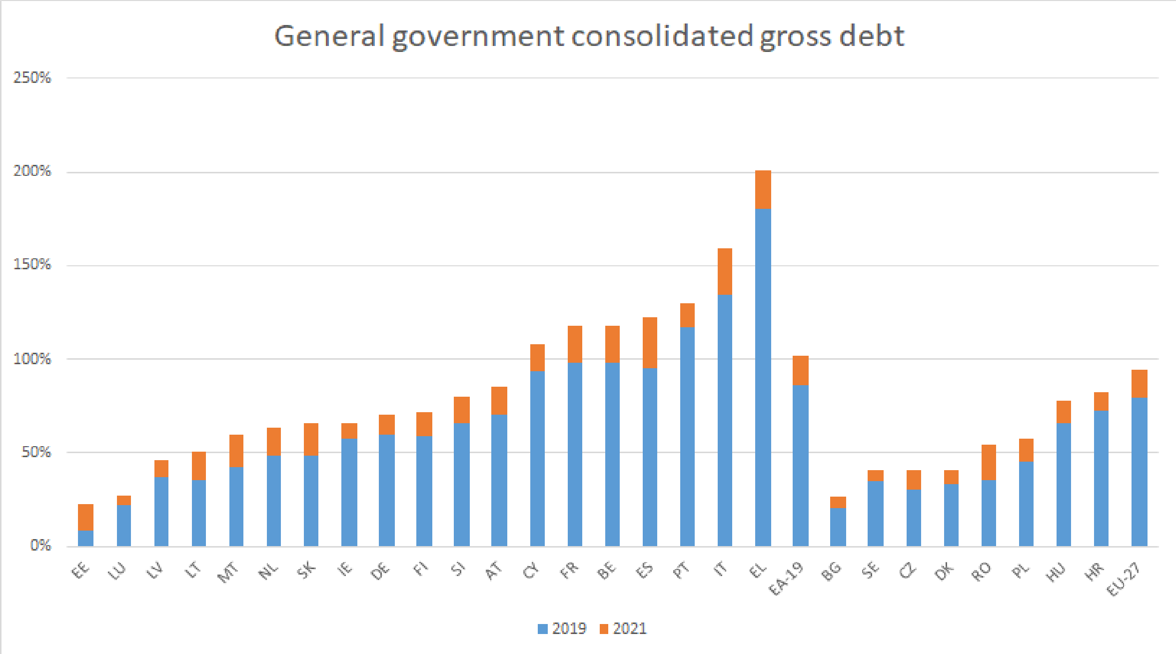
Based on a request of the ECON Committee, briefing papers by academics on "*How and When to deactivate the general escape clause of the SGP*" have been commissioned. One of the papers, prepared by Eric Jones, is already available (the others will soon be available here). Jones concludes *inter alia* that finding a balance between a durable recovery and fiscal sustainability explains why it is necessary to have transitional arrangements in place when deactivating the general escape clause. Key findings of the paper are:

The deactivation relies on a deeper understanding of the causal mechanism at work behind the crisis. A pandemic-induced downturn will only end once the contagion is eliminated or society adapts to the new circumstances. This implies a period of flexibility that is longer than may be optimal to ensure fiscal sustainability. Therefore, it may be necessary to deactivate the general escape clause and rely on the flexibility available under the unusual circumstances clause to create transitionary arrangements for individual countries. Such arrangements would mitigate the distortions created by fiscal and monetary policy while at the same time responding effectively to the variation in experiences across Member States in response to the pandemic.

Latest Commission forecast on public finances

According to the autumn 2020 forecast of 5 November 2020, the rise in government deficits in 2020 is expected to be very high across the euro area (and a bit less high across the EU), given that government spending increases and tax revenues fall, both as a result of the exceptional policy actions designed to support the economy and the effect of automatic stabilisers. The forecast projects the aggregate government deficit of the euro area to increase from 0.6% of GDP in 2019 to about 8.8% in 2020, before declining to 6.4% in 2021, reflecting the expected phasing out of emergency support measures in the course of 2021 as the economic situation improves: *"Mirroring the spike in deficits, the forecast projects the aggregate euro area debt-to-GDP ratio will increase from 85.9% of GDP in 2019 to 101.7% in 2020, 102.3% in 2021 and 102.6% in 2022."*

Figure 2: Public debt level in EU Member States during the pandemic



Source: EGOV based on European Commission 2020 autumn economic forecast

Further reading:

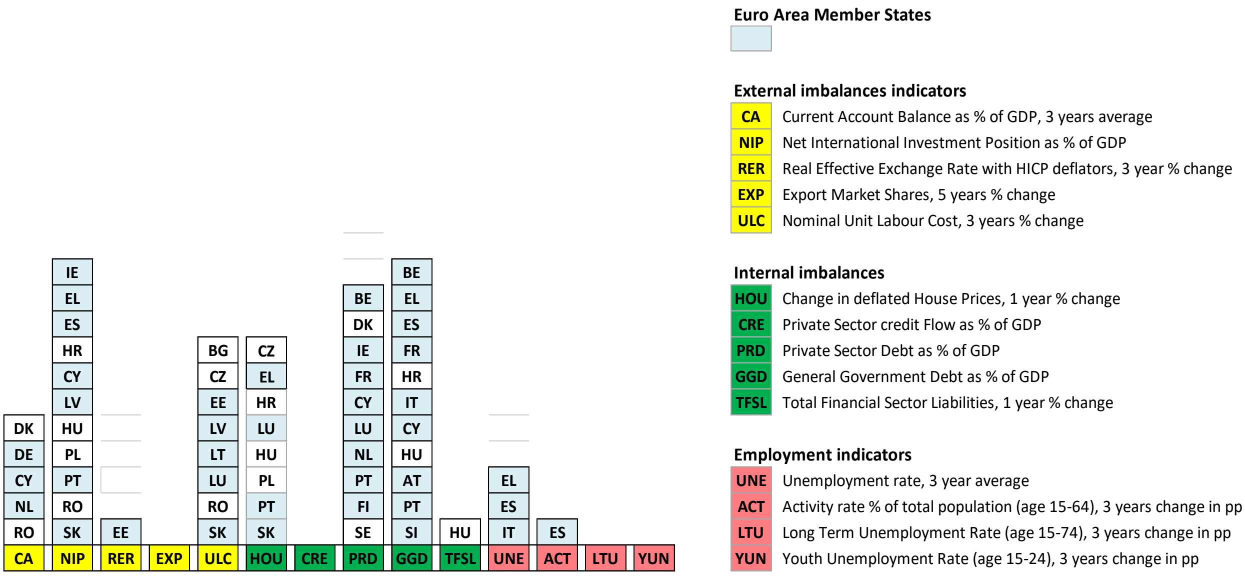
Briefing: Implementation of the Stability and Growth Pact under pandemic times - November 2020
Briefing: Public finances in Euro Area Member States: selected indicators - November 2020
Briefing: Key figures of 2021 Draft Budgetary Plans - November 2020
Summaries of expertise by academic experts on "The role of fiscal rules in relation with the green economy" and "Benefits and drawbacks of an "expenditure rule", as well as of a "golden rule", in the EU fiscal framework" - October 2020.

4. The surveillance of macro-economic Imbalances

The implementation of the Macroeconomic Imbalance Procedure (MIP) is heavily affected by the pandemic, as is the whole Semester, of which it is an integral component. The impact is on both the content and the timeline of the procedure.

The Commission published the Alert Mechanism Report 2021 on 18 November. The AMR is normally based on the MIP-Scoreboard, which presents data on 13 indicators that refer to the previous year: the use of such figures is justified by the fact that macroeconomic imbalances do not develop suddenly, and therefore the surveillance tasks can be performed on the basis of somehow outdated (but complete) data. The pandemic has completely changed such approach: data up to 2019, even if still meaningful, cannot be used to anticipate and prevent the developments of macroeconomic imbalances. Therefore, the Commission includes in its analysis a "*reinforced forward-looking assessment of risks to macroeconomic stability*", making greater use of forecasts and high-frequency data.

Figure 3: MIP scoreboard - Member States with values beyond the thresholds



Source: EGOV based on 2021 Alert Mechanism Report. Values for 2019

From the procedural standpoint:

- the "Specific monitoring" of countries experiencing macro-economic imbalances in the 2020 Semester cycle is not taking place now, but will take place together with the assessment of RRPs in the context of the RRF, expected in April 2021;
- the in-depth-reviews for countries considered at risk of macroeconomic imbalances, which are usually part of the Country reports published in the "winter package", will be published in spring 2021, together with the assessment of the SCPs.

The AMR notes that most of the imbalances highlighted in previous years were undergoing a process of correction in 2019: excessive large current account deficits or strong credit growth had been corrected, and the economic recovery following the financial crisis supported the correction of stock imbalances, namely private, public and external debts. Progress was visible also in the financial sector, with strengthened banks' balance sheets. The post-2013 recovery had also brought some risks in a few countries, especially related to house prices and cost competitiveness developments.

The pandemic crisis has interrupted most of the positive developments, is aggravating a number of existing imbalances and new risks emerge. Most notably, both government and private debt-to-GDP ratios are increasing; debt repayment by the private sector (households and companies) might become difficult, due to the reduced economic activity, and therefore debt distress might affect banks' balance sheets and profitability. The recently emerged risks related to labour costs and house prices have been mitigated by the crisis, but risk to reverse, especially if house prices decrease excessively.

As for the horizontal analysis presented in the AMR, it should be noted that most of the indicators are affected not only by the developments of the economic phenomena, but also by the denominator of the indicators, namely the GDP: as the latter decreases, the indicators depict an even gloomier situation than the real one.

The AMR devotes specific attention to developments in the euro area. The Commission notes that the pandemic could increase economic divergences between euro area Member States. In parallel, the Commission projects a trade surplus for the euro area as a whole, that would keep the current account surplus elevated (expected to be 1.8% of GDP in 2020 and 1.9% in 2021), thereby signalling that there is room for expanding domestic demand.

The AMR concludes that surveillance activities need to focus on countries that were already identified as having imbalances or excessive imbalances in February 2020. Therefore, the Commission recommends that in-depth reviews to identify and assess the severity of possible macroeconomic imbalances be prepared for Croatia, France, Germany, Ireland, Netherlands, Portugal, Romania, Spain and Sweden (the nine MSs Member States experiencing imbalances) and for Italy, Greece and Cyprus (that were experiencing excessive macroeconomic imbalances).

At the same time, the Commission states that it will closely follow developments in other Member States, including a few ones that have experienced external problems in spring 2020 (related to the exchange rate, especially in Hungary), as well as in Member States with very high private debt levels (Denmark, Finland and Luxembourg) and public debt levels (Austria and Slovenia).

Next steps: Following an exchange of views on the AMR on 1 December 2020, the Council (ECOFIN) will adopt conclusions on 19 January 2021 and the Eurogroup will hold a thematic discussion on imbalances in the EA in the wake of the COVID19 crisis on 18 January 2021.

Further reading:

- Briefing: Implementation of the Macroeconomic Imbalance Procedure: State of play - latest version
- Briefing: Implementation of Country-Specific Recommendations under the MIP - latest version

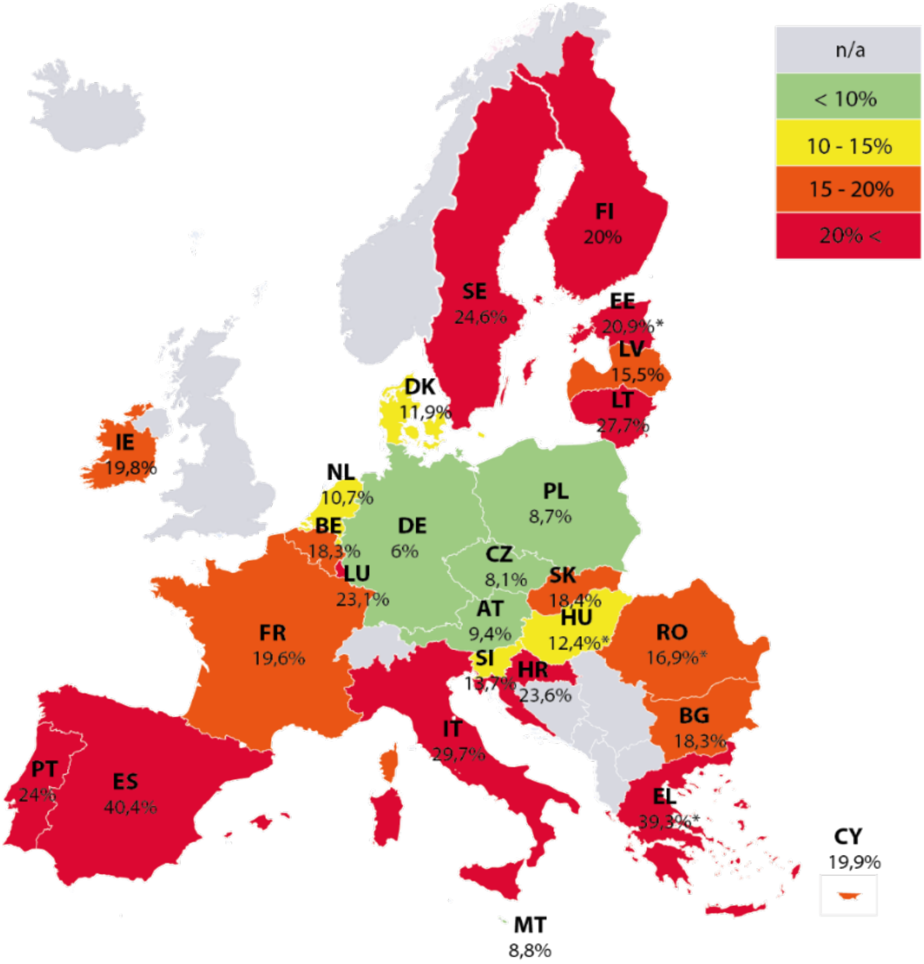
5. The employment guidelines and policies

According to the latest Joint Employment Report published by the European Commission, the COVID-19 crisis has broken a six-year long positive trend on the labour market, which had started with increased Member States reform efforts in the aftermath of the financial crisis [5]. A year ago, 209.3 million people were employed in the EU, the highest level ever. This autumn, the pandemic wiped out 3% of jobs, affecting 6.1 million people. The number of hours worked, has fallen drastically by more than 10%. 5.4 million young people (15-24 years old), including young NEETs (not in education, employment, or training), have been most affected by the destruction of jobs related to the pandemic.

The response by European and national authorities was swift and safeguarding jobs became the top policy priority (together with safeguarding citizens' health). As the report highlights, *"The implementation of these measures has, so far, avoided the emergence of a massive employment and social crisis across the EU. Yet, many uncertainties remain, notably about how long the pandemic will last, when a sustainable economic recovery will materialise, and the consequences for the most vulnerable. The situation differs across countries, also due to the legacy of the past."*

[5] Country specific Flash Reports prepared by the European Social Policy Network on COVID-19 socio-economic consequences and policy responses can be found here and here. The Reports discuss various measures that each Member State have implemented to tackle the pandemic and its social and economic consequences, i.e. primarily to protect employment and mitigate loss of income among other topics.

Figure 4: Youth unemployment (aged 15-24, % of labour force in September 2020)



Source: EGOV based on [Eurostat]
Note: * Latest data is available only for August 2020 (Estonia and Hungary), July 2020 (Greece) and June 2020 (Romania)

The Report points, among other issues, to a need to address *"the causes of labour market segmentation, including by adapting legislation and ensuring that the right incentives are in place to hiring on stable contracts; [...] the adaptation of working conditions [...] invest[ing] in the workplace and reforms to enhance the availability of flexible working arrangements; supporting smooth labour market transitions [to active labour market], while preventing the risks of further skills polarisation is essential to inclusive growth; reforms to make education systems more inclusive and deliver better outcomes, support the most vulnerable and invest in educational infrastructure, including digital education; upskilling and reskilling [as] top priority to foster an inclusive recovery and support the digital and green transitions"*.

In line with President von der Leyen's commitment, on 28 October the European Commission proposed an EU Directive which would ensure that workers in the EU are protected by adequate minimum wages. The Commission argues that the Directive would not only have positive social impact, but also bring wider economic benefits, such as reduction in wage inequality, reduction in the gender pay gap, stronger incentives to work and help sustain domestic demand.

On 23 November 2020, the Council has a (EMPL) adopted conclusions on the 2021 European Semester recognising the critical need to protect the EU citizens, their jobs, health and well-being (including EU measures such as recovery instrument, Next Generation EU, SURE). In this light, the Council highlighted the need for essential reforms and investment in the labour market in order to support economic recovery, promote sustainable and inclusive growth and job creation and invited the Commission in close cooperation together with the Member States to develop new employment policy targets to steer the implementation of the principles of the European Pillar of Social Rights. The Council pointed out that practices within the European Semester should be used for policy coordination and effective policy implementation, and strongly encouraged to return to a fully-fledged European Semester process as soon as possible, including its governance.

One should note that the Commission has been compiling an **EU Regional Social Progress Index**, which aims to measure social progress for each region as a complement to traditional measures of economic progress. It is intended to complement measures based on GDP, income or employment. It follows the overall framework of the global Social Progress Index and is based on fifty indicators, primarily from Eurostat. Measuring social progress can inform the development strategies of EU regions. The index is not created for the purpose of funding allocation and does not bind the European Commission.

Next steps: The Council (EMPL) had an exchange of views 3 December 2020 and will aim to adopt its conclusions on the JEP on 15-16 March 2021.

6. The draft euro area recommendation

The Commission adopted the draft 2021 EARs on 18 November 2020, accompanied by a staff working document (SWD) analysing the euro area economy. The COVID crisis and its responses are at the centre of concerns in both documents.

The 2021 EARs cover similar areas than in previous years (fiscal, structural, institutional and the financial sector). The main distinctive factor in 2021 EARs is the centrality of COVID-crisis response: the 2021 EAR is clearly orientated to policies aiming at counteracting the effects of the COVID-crisis, irrespective of the area in question. The digital and green agenda also feature high in the 2021 EAR, as the guiding policies underlying measures to fight the pandemic and ensure sustainable growth. Whilst recognising that the crisis is still unfolding, the EAR already points to start considering a possible exit strategy: EAR 1, on budgetary/fiscal matters argues that policy measures should be "*timely, temporary and targeted*" and that once "*epidemiological and economic conditions allow*", phase out support measures and resume policies aiming at "*achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment*".

In the context of the RRF, the EAR is gaining a specific relevance. The Commission draft RRF regulation does not contain an express reference to the EAR[6]. Differently, the Council adopted mandate for negotiating with the European Parliament establishes that the RRPs are to be consistent with the "*challenges* (...) *and priorities* (...) *identified in the most recent Council recommendation on the economic policy of the euro area for Member States whose currency is the euro*"[7]. The European Parliament negotiating mandate contains provisions[8] of similar effect. If kept in the final text, such provisions reinforce the relevance of the EAR as orientations to euro area Member States economic policies, arguing for stronger and more transparent accountability around their adoption, monitoring and enforcement.

Particularly relevant in this context would be the methodology the Commission announced would be devising, together with Member States, to assess implementation of the EAR. In fact, in the SWD accompanying the draft 2020 EAR, the Commission had committed to come forward with such methodology. Nevertheless, the SWDs accompanying the draft 2021 EAR makes no reference to such

[6] Indirect references can be found, though, as the Commission proposed to assess the RRPs against "*any other relevant documents adopted by the Commission in the European Semester.*" (see article 16/3/a of the Commission proposal).

[7] Council negotiating mandate, article 14/2 and recital 16.

[8] See articles 14/2a(new), 15/3ab(new), 16/3/m(new) and Annex 2, point 2/1c (new) - point m.

project. As such, to assess implementation of previous EAR, one has to rely on proxies, such as the Eurogroup discussions - which, in 2020, has mostly focused on crisis response.

Next steps: The Eurogroup is expected to discuss the 2021 EAR on 16 December 2020, while the Council (ECOFIN) would approve it on 19 January 2021.

Further reading:

Briefing: Recommendation on the economic policy of the euro area - December 2020

7. Review of the EU economic governance framework

In accordance with the so-called "Six-pack" and "Two-pack" Regulations[1], 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 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*). Until end of December 2020, the rapporteur and the shadow rapporteurs hold meetings with experts on different topics relevant for the preparation of the report.

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Annex 1: EU Gross domestic product

	Eurostat* (12/2020)					EC (11/2020)			IMF (10/2020)			ECB (06/2020)			OECD (12/2020)		
	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020	2021	2022	2019	2020	2021	2019	2020	2021	2020	2021	2022
BE	1.8	1.7	-3.4	-11.8	11.4	-8.4	4.1	3.5	1.4	-8.3	5.4	1.4	-9.0	6.4	-7.5	4.7	2.7
DE	1.3	0.6	-1.9	-9.8	8.5	-5.6	3.5	2.6	0.6	-6.0	4.2	0.6	-7.1	3.2	-5.5	2.8	3.3
EE	4.4	5.0	-0.8	-5.5	3.3	-4.6	3.4	3.5	5.0	-5.2	4.5	4.4	-10.0	8.5	-4.7	3.4	3.3
IE	8.5	5.6	-2.1	-6.1		-2.3	2.9	2.6	5.9	-3.0	4.9	5.5	-8.9	5.6	-3.2	0.1	4.3
EL	1.6	1.9	-0.7	-14.0		-9.0	5.0	3.5	1.9	-9.5	4.1	1.9	-5.8	5.6	-10.1	0.9	6.6
ES	2.4	2.0	-5.2	-17.8	16.7	-12.4	5.4	4.8	2.0	-12.8	7.2	2.0	-11.6	9.1	-11.6	5.0	4.0
FR	1.8	1.5	-5.9	-13.8	18.7	-9.4	5.8	3.1	1.5	-9.8	6.0	1.3	-10.3	6.9	-9.1	6.0	3.3
IT	0.9	0.3	-5.5	-13.0	15.9	-9.9	4.1	2.8	0.3	-10.6	5.2	0.3	-9.2	4.8	-9.1	4.3	3.2
CY	5.2	3.1	-0.9	-13.1	9.4	-6.2	3.7	3.0	3.2	-6.4	4.7	3.2	-7.3	5.6			
LV	4.0	2.1	-2.3	-7.1	7.1	-5.6	4.9	3.5	2.2	-6.0	5.2	2.2	-7.5	6.7	-4.3	2.4	4.0
LT	3.9	4.3	0.0	-5.9	3.8	-2.2	3.0	2.6	3.9	-1.8	4.1	3.9	-9.7	8.3	-2.0	2.7	3.1
LU	3.1	2.3	-1.4	-7.2		-4.5	3.9	2.7	2.3	-5.8	5.9	2.3	-7.8	7.9	-4.4	1.5	3.8
MT	5.2	4.9	-2.7	-17.1	12.7	-7.3	3.0	6.2	4.9	-7.9	4.8	4.4	-4.8	5.8			
NL	2.4	1.7	-1.5	-8.5	7.7	-5.3	2.2	1.9	1.7	-5.4	4.0	1.8	-6.4	2.9	-4.6	0.8	2.9
AT	2.6	1.4	-2.8	-11.6	12.0	-7.1	4.1	2.5	1.6	-6.7	4.6	1.5	-7.2	4.9	-8.0	1.4	2.3
PT	2.8	2.2	-4.0	-13.9	13.3	-9.3	5.4	3.5	2.2	-10.0	6.5	2.2	-9.5	5.2	-8.4	1.7	1.9
SI	4.4	3.2	-4.7	-9.8	12.4	-7.1	5.1	3.8	2.4	-6.7	5.2	2.4	-6.5	4.9	-7.5	3.4	3.5
SK	3.8	2.3	-5.2	-8.3		-7.5	4.7	4.3	2.4	-7.1	6.9	2.4	-10.3	8.4	-6.3	2.7	4.3
FI	1.5	1.1	-1.5	-3.9	3.3	-4.3	2.9	2.2	1.1	-4.0	3.6	1.0	-6.9	3.0	-4.0	1.5	1.8
EA	**1.9**	**1.3**	**-3.7**	**-11.8**	**12.6**	**-7.8**	**4.2**	**3.0**	**1.3**	**-8.3**	**5.2**	**1.2**	**-8.7**	**5.2**	**-7.5**	**3.6**	**3.3**
BG	3.1	3.7	0.4	-10.1		-5.1	2.6	3.7	3.4	-4.0	4.1				-4.1	3.3	3.7
CZ	3.2	2.3	-3.3	-8.5	6.9	-6.9	3.1	4.5	2.3	-6.5	5.1				-6.8	1.5	3.3
DK	2.2	2.8	-1.6	-7.0	4.9	-3.9	3.5	2.4	2.4	-4.5	3.5				-3.9	1.8	2.5
HR	2.8	2.9	-1.3	-15.0	6.9	-9.6	5.7	3.7	2.9	-9.0	6.0						
HU	5.4	4.6	-0.4	-14.6	11.4	-6.4	4.0	4.5	4.9	-6.1	3.9				-5.7	2.6	3.4
PL	5.4	4.5	-0.3	-9.0	7.9	-3.6	3.3	3.5	4.1	-3.6	4.6				-3.5	2.9	3.8
RO	4.5	4.2	0.0	-12.2	5.6	-5.2	3.3	3.8	4.1	-4.8	4.6				-5.3	2.0	4.4
SE	2.0	1.3	0.3	-8.0	4.9	-3.4	3.3	2.4	1.3	-4.7	3.5				-3.2	3.3	3.3
EU	**2.1**	**1.5**	**-3.3**	**-11.4**	**11.6**	**-7.4**	**4.1**	**3.0**									

** Note: For 2018 and 2019 the GDP growth is provided year-on-year change, while 2020 Q1, Q2 and Q3 are quarter-on-quarter changes.*