IN-DEPTH ANALYSIS

Economic Dialogue with the President of the Eurogroup

ECON on 25 January 2021

Paschal Donohoe has been invited to his first Economic Dialogue in the ECON Committee since his election as President of the Eurogroup in July 2020. The previous dialogue with Mário Centeno took place on 21 April 2020.

The exchange of views with Members of the ECON Committee will cover the ongoing work of the Eurogroup, notably short term policy measures intended to combat the economic, financial and social consequences of COVID-19, medium term policies to support a sustainable recovery and increase resilience of the Euro Area and longer term objectives relating to the robustness of the EMU governance framework, including completing the Banking Union.

This briefing covers the following issues: the Eurogroup work programme until June 2021 (Section 1); Economic situation and developments (Section 2); the Recovery and Resilience Facility and the 2021 European Semester Cycle (Section 3); EU/EA policy measures taken to mitigate the economic effects of the pandemic (Section 4); Financial assistance programmes and reform of European Stability Mechanism (Section 5) and Banking Union developments (Section 6).

For an overview of the role of the President of the Eurogroup, please see Briefing: The role (and accountability) of the President of the Eurogroup.

1. The Eurogroup work programme until June 2021

Paschal Donohoe, Minister of Finance of Ireland, was elected President of the Eurogroup (PEG) on 9 July 2020. Donohoe's mandate started on 13 July 2020. In his motivation letter, he emphasised he would be "*building bridges*" and committed to a transparent and inclusive Eurogroup (EG), including giving a pro-European voice internally and with external partners. He also emphasised the importance of effectively communicating to citizens and the European Parliament the steps being taken at Eurogroup on its agenda. This is his first appearance in ECON.

The COVID-crisis response will be the main centre of attention at the EG in the coming months. In accordance with the work programme adopted on 5 October, the EG will focus, until June 2021, on the following policy areas:

- **Economic and fiscal policies to support recovery and long-term growth**, where the EG intends to "*play an important role in fostering consistency and coherence between national policies, the use of the new EU financing tools, and euro area priorities*". The EG will also provide guidance on the overall fiscal stance of the euro area and of fiscal plans of EG Member States. The EG will "*take a critical but constructive perspective on the effectiveness of this process [review of the economic governance framework] and fiscal surveillance in general*" and, through the euro area Recommendation, will "*formulate its policy views and to support a coherent policy mix across a broad range of economic and fiscal policies*". It will also discuss policies that

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address longer-term challenges (such as higher and targeted investment in the green and digital transitions, and structural reforms to support growth potential);

- **Monitor macroeconomic and fiscal developments** and hold discussions on reforms;

- **Completing the Banking Union**, by taking a holistic approach on a consensual basis. The EG intends to finalise the agreement on the ESM Treaty as well as on the early introduction of the common backstop to the SRF, make progress with the issue of liquidity in resolution, and as a matter of priority will look into some specific aspects of the crisis management framework;

- Contribute to achieving the objectives of the **Capital Markets Union**;

- Examine the **impact of new technologies** in banking and payments (in particular of digital currencies and of a digital euro) on euro area economies to safeguard financial stability and monetary sovereignty, while remaining at the forefront of innovation and supporting growth;

- Continue monitoring the potential opportunities and advantages but also the risks of an **enhanced international role of the euro**, monitor the plans and actions related to the introduction of the euro in the Member States with a derogation, offering its support and guidance on the appropriate policies leading to successful participation in the ERM II and the eventual introduction of the euro by those Member States;

The EG also intends to strengthen the connection with European citizens and increasing their sense of ownership of the euro and of the Economic and Monetary Union, namely by paying attention to and clearly communicating to citizens the impact of its deliberations. As part of the work programme, the EG will take stock of the implementation of its transparency regime (see box below).

Box: Institutional setting of the Eurogroup: two recent tendencies

Two issues deserve specific attention regarding the most recent institutional setting of the Eurogroup: on one side, the following up of requests for increased transparency and on the other, the increasing inclusiveness of the Eurogroup.

On the first point, following calls from various actors for increased transparency, the Eurogroup has proposed a number of measures - namely a register of documents and further availability of Eurogroup Working Group meeting calendars. Looking at the information made available, one may conclude that it is better organised and is easier to search, but there seems not to be much more substantial information available. In accordance with the draft EG agendas, the EG transparency initiative will be discussed again in April 2021.

The second point relates to the inclusiveness of the Eurogroup, i.e. where the frontiers with the ECOFIN may be blurred. At least since September 2018, the Eurogroup has recurrently been meeting in "inclusive format" to discuss euro area issues that are also relevant for EMU governance and/or the internal market, such as Banking Union. But the Eurogroup format allows for confidential discussions that may influence and pre-empt ECOFIN decisions.

The IMF recently issued a report under its IV article assessments analysing the euro area.

2. Economic situation and developments

Economic growth

In its autumn economic forecast of November 2020, the Commission stressed several uncertain elements in its projections: *"first, it is clear that the future course of the pandemic will play a key role in determining the future path of economic growth ... second, the economic impact of the pandemic and future recovery prospects will differ widely across the EU ... [and] third, policy measures matter"*.

The baseline scenario assumed that containment measures, after a significant tightening in the fourth quarter of 2020, will gradually ease in 2021 and 2022, but will, however, remain to some degree in force through the entire forecasting horizon (which is end-of-2022). Another important baseline scenario assumption was made with regard to the future trading relationship between the UK and the EU, which assumed that *"the EU and the UK will trade on WTO Most Favoured Nation rules from 1 January 2021 onwards"*.

Under this baseline scenario, *"overall, EU GDP is forecast to contract by about 7½% this year before rebounding by 4% in 2021, which is less than previously forecast, and by 3% in 2022. This implies that the output in the European economy would barely return to pre-pandemic levels in 2022."*

Based on the Commission baseline forecasts for each Member State, by the end of 2021 only Ireland and Lithuania would recover to their pre-pandemic GDP level (Ireland will have 0.5% and Lithuania will have 0.7% higher GDP than at the end of 2019).

It must be noted that the Commission forecast has been prepared and published before the announcement of a successful vaccine. So far, only the OECD and the ECB published their economic projections taking into account the announcement of few available vaccines against Covid-19. The two institutions project a 7.3% GDP decline in the euro area in 2020 followed by 3.9 to 4.7% rebound in 2021 and 2.9 to 4.2% growth in 2022. See Annexes 1A and 1B for the forecast figures published by the four major international organisations for all euro area Member States.

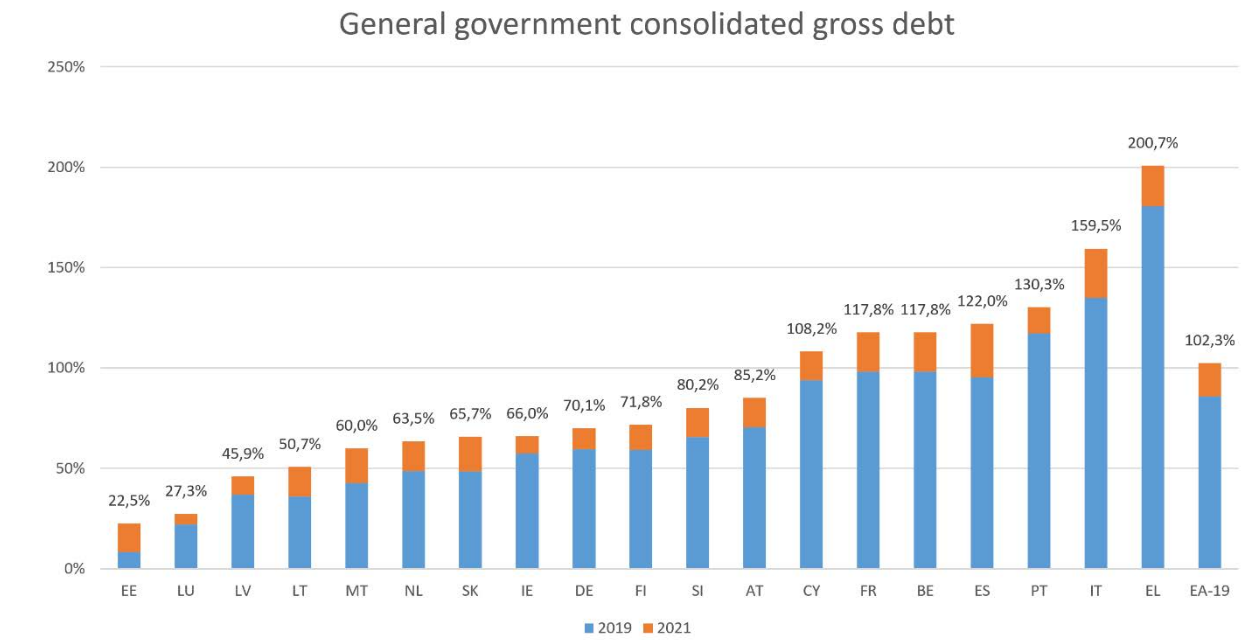
Public finances

According to the Commission autumn 2020 forecast, there was a very high rise in government deficits in 2020 across the EU, given that government spending increased and tax revenues fell, both as a result of the exceptional policy actions designed to support the economy and the effect of automatic stabilisers. The forecast projected 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.

The euro area Member States submitted in October 2020 Draft Budgetary Plans for 2021, containing, inter alia, forecasts on GDP growth, public deficit, public debt and budgetary structural balances. A comparison of these national forecasts with the Commission autumn forecasts reveals partly significant differences, which is not surprising given the uncertainties and risks surrounding economic forecasts in the current circumstances (see separate EGOV briefing).

Public debt in Euro Area Member States in 2019 and 2021



Source: European Autumn economic forecast, November 2020

In March 2020, the ECB launched the pandemic emergency purchase programme (PEPP) to counter the systemic risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. The ECB states in this regard " *The Governing Council will terminate net asset purchases under the PEPP once it judges that the COVID-19 crisis phase is over, but in any case not before the end of March 2022. The maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.*

Macro-economic imbalances

In November 2020, the Commission published the Alert Mechanism Report 2021 (AMR), which presented the analysis of the macroeconomic situation and imbalances in the EU and in each Member State. The AMR devoted specific attention to developments in the euro area as a whole.

MIP-scoreboard indicators beyond the thresholds, euro area Member States (2019 data)

Internal imbalances

HOU	Change in deflated House Prices, 1 year % change
CRE	Private Sector Credit Flow as % of GDP
PRD	Private Sector Debt as % of GDP
GGD	General Government Debt as % of GDP
TFSL	Total Financial Sector Liabilities, 1 year % change

Employment indicators

UNE	Unemployment rate, 3 year average
ACT	Activity rate % of total population (age 15-64), 3 years change in pp
LTU	Long Term Unemployment Rate (age 15-74), 3 year change in pp
YUN	Youth Unemployment Rate (age 15-24), 3 years change in pp

External Imbalances Indicators

CA	Current Account Balance as % GDP, 3 years average
NIP	Net International Investment Position as 5 of GDP
RER	Real Effective Exchange Rate with HDCP deflators, 3 year % change
EXP	Export Market Shares, 5 years % change
ULC	Nominal Unit Labour Cost, 3 years % change

				UNE	ACT			GGD							GGD			
				GGD	UNE			PRD			PRD				PRD		HOU	
GGD		ULC	PRD	HOU	GGD	GGD	UNE	NIP	ULC		HOU		PRD		HOU		ULC	
PRD	CA	RER	NIP	NIP	NIP	PRD	GGD	CA	NIP	ULC	ULC		CA	GGD	NIP	GGD	NIP	PRD
BE	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	MT	NL	AT	PT	SI	SK	FI

Source: 2021 Alert Mechanism Report, (data 2019)

According to a note prepared by the Commission services on 12 January 2021 building on the AMR, a number of existing macroeconomic imbalances are being aggravated by the COVID outbreak, and new risks may loom:

Current account balances are not strongly affected by the COVID-19 crisis, while large external debt-to-GDP ratios will stop falling. The increase in the net lending position of the private sector was offset by that of the government sector in its effort to cushion the impact of the crisis. Some large current account surpluses related to an excess of savings over investment persist although narrowing in recent years. Some current account deficits are widening, including as a result of tourism revenue losses. Improvements for what concerns external debt are coming to a halt.

Wage growth is expected to fall, as well as productivity. Unit labour costs are forecast to exhibit a one-off spike in 2020 largely driven by losses in labour productivity per worker, on account of falling output coupled with the preservation of employment. Wage and compensation dynamics have dropped in 2020 mainly in light of reduced hours worked per worker, and are set to remain moderate. In 2021, a rebound in productivity is expected in line with the recovery in economic activity, but it will fall short of compensating for the losses in 2020. The very strong growth in unit labour costs recorded in some Member States in recent years is coming to an end. Consequently, risks going forward are more linked to the implications of weak labour markets for private debt repayment (see below) than to losses in cost competitiveness.

Because of the pandemic effects, **private and government debt-to-GDP ratios** are on the rise. In 2020, credit dynamics have risen considerably for corporations in light of the need to finance working capital, while household credit has decelerated. The provision of credit was supported by policies such as credit guarantees and moratoria on debt repayments. Largely in light of deep recessions, and the need to cushion the impact of the COVID-19 crisis via supportive policies, both government and private debt-to-GDP ratios are recording upward spikes in 2020. Government debt has risen in all Member States, but more where pre-crisis levels were already the highest, reflecting also the fact that the recession has been deeper in those countries. Going forward, servicing debt for corporations could be challenging particularly in sectors impacted by the pandemic in a more lasting way, and repayment prospects for household debt are clouded by the deterioration of labour markets.

House price dynamics strengthened over past years but are set to decelerate, with risks of downward corrections in coming years. Downward corrections are already visible on a quarter on quarter basis for few countries, and are broadly in line with the predictions of model-based forecasts, mainly in light of weakening household income dynamics. Conditions in the banking sector improved in past years, but the COVID-19 shock could put the resilience of the banking sector to the test. Conditions in the banking sector in the euro area have improved considerably since the global financial crisis, with stronger capital ratios and liquidity buffers than a decade ago. However, the sector has remained challenged by low levels of profitability in a low interest rate environment, and, in a few countries, by still high levels of non-performing loans. With the COVID-19 crisis, nonperforming loans (NPLs) may edge up, especially after the expiration of debt moratoria. Downward corrections in house prices could impinge on the valuation of mortgage collateral and thereby also affect banks.

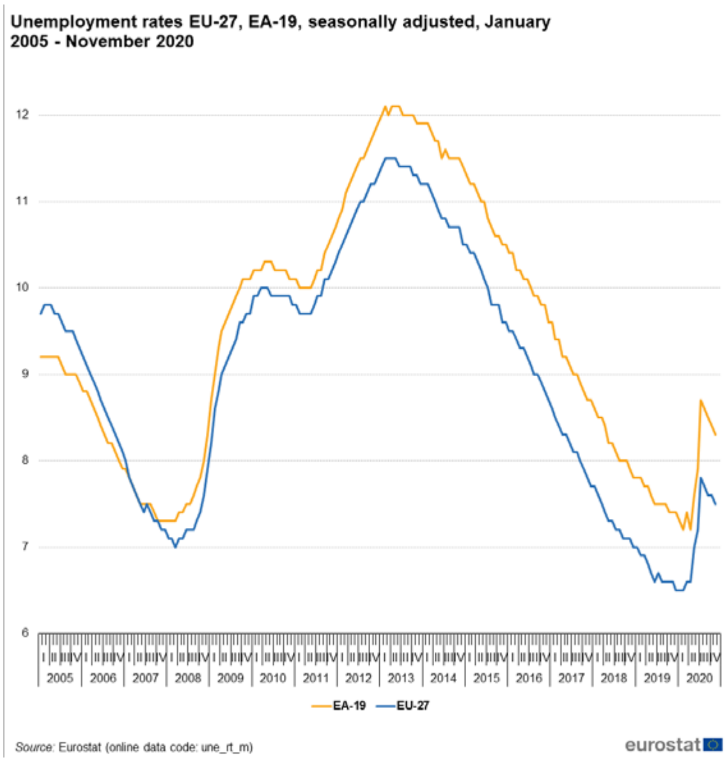
(Un)employment

According to European Commission's Draft 2021 Joint Employment Report, the COVID-19 crisis has broken a six-year long positive trend on the labour market. The total number of people in employment and the employment rate have dropped significantly, though the increase in the unemployment rate has been moderate so far thanks to the swift adoption of short-time work schemes and similar measures. Member States that already experienced serious socio-economic challenges before the pandemic are now even more exposed to vulnerabilities.

The economic shock to the labour market is being experienced differently across sectors and categories of workers. The employment fall has affected workers in non-standard forms of employment to a greater extent. Youth unemployment has increased more markedly than unemployment for other age groups. The share of young people not in employment, education or training has risen sharply. Non-EU born workers have also been severely affected.

Most recent Eurostat data showed an unemployment rate of 8.3% in the Euro area and 7.5% EU-27 in November 2020 (see Figure below). In November 2020, the youth unemployment rate was 17.7% in the EU and 18.4% in the euro area, up from 17.5% and 18.0% respectively in the previous month.

Unemployment rates in EU and EA 2005 - 2020



3. The Recovery and Resilience Facility and the 2021 European Semester Cycle

On 27 May 2020, the Commission proposed a Regulation on a Recovery and Resilience Facility (RRF), in the context of the "European Union Recovery Plan", a wide package of initiatives aimed at catering for the negative consequences of the COVID-19 crisis. The RRF Regulation is pending final adoption and publication, after being agreed by the European Parliament and Council late December 2020.

The RRF will provide Member States with grants (up to EUR 312.5 bn, 2018 prices) and loans (up to EUR 360 bn, 2018 prices) for financing packages of investments and reforms which should focus on six identified pillars including the EU green and digital agendas and be put forward by the Member States in their national Recovery and Resilience Plans (RRPs).

The plans should address the challenges identified in the European Semester, particularly the country-specific recommendations addressed to Member States in 2019 and 2020, and the most recent euro area recommendation[1]. Following that, the European Semester in 2021 will look rather different (in both form and substance) to what it was in previous cycles. The RRPs, to be submitted by Member States during spring

[1] As underlined in a Eurogroup Working Group background note for the 18 January 2021 Eurogroup (available here).

2021[2], will be the main reference document for the Member States' forward-looking economic policy initiatives. Member States will report progress in the context of the European Semester and disbursements will be available once the set milestones and targets are achieved. Other Semester documents and steps will also have a different configuration to cater for the RRF.

Box: Expected European Semester timeline*:

- 25-26 March 2021: the European Council holds an exchange of views on the economic situation and provides guidance to Member States for the 2021 Stability and Convergence Programmes and for the National Reform Programmes (that integrate the national Recovery and Resilience Plans - RRP - in the context of the Recovery and Resilience Facility);
- Mid-April 2021: Further to the guidance provided by the European Council, Member States submit their 2021 National Reform Programmes (integrating the national RRPs) and 2021 Stability or Convergence Programmes;
- Late May: the Commission presents its analytical documents on the national RRPs, replacing the Country reports. The Commission will also publish its "*recommendations for the 2021 fiscal Council Recommendations on the National Reform Programmes and delivering a Council Opinion on the Stability and Convergence Programmes*", including the in-depth-review for countries considered at risk of macroeconomic imbalances;
- 18 June 2021: the ECOFIN adopts its conclusions on In-Depth-Reviews under the MIP; it approves its conclusions on the future of the Semester in the context of Recovery and Resilience Facility in the field of economic and financial affairs;
- On 24-25 June, the European Council discusses and endorse the fiscal CSRs;
- In July, the ECOFIN Council formally adopts the fiscal CSRs.

* According to the Council "Semester 2021 - Roadmap" and the Eurogroup Work programme until June 2021.

Whilst recognising that the EU recovery, the RRF and the related budgetary instruments are EU-wide, the PEG has noted, in the press remarks after the October 2020 meeting, that there is more at stake for the euro area "*as our economies are closely intertwined. The Eurogroup is playing a very important coordinating role here, to identify priorities and to ensure the positive impact on the euro area's growth and jobs is greater than the sum of individual Member States' actions.*"

The EG statement of November 2020 goes along the same lines: "*The Eurogroup commits to support prioritised and coordinated reforms and investments that enhance the proper functioning of the euro area as a whole.*" On 18 January, Ministers exchanged views on the preparation of the national Recovery and Resilience Plans against the background of the priorities agreed in the euro area recommendation (EAR). Paschal Donohoe referred, in particular, that the draft plans submitted thus far reflect the EAR (Ministers had a "*very useful and very important update from the Commission on how euro-area priorities are reflected so far in draft plans. (...) the overall picture was, I think, one of the recommendations that are reflected in the draft plans*".).

The specific "euro area dimension" of the RRF and the role EG will play on it is underlined in a background note for the 18 January Eurogroup. Both are anchored on the euro area recommendation (EAR): "*The Eurogroup is already actively co-ordinating the policy stance (recommendation i) and driving forward EMU deepening work (recommendation v). In the context of supporting the recovery, coordinating national investment and reform efforts will be crucial to improve convergence and resilience, to promote sustainable and*

[2] Following the 19 January 2021 ECOFIN, Vice-President Dombrovskis noted that eleven Member States had submitted draft RRPs (Bulgaria, Croatia, the Czech Republic, France, Germany, Greece, Hungary, Portugal, Slovenia, Spain, and Slovakia).

inclusive growth, and to improve institutional frameworks (recommendations ii-iii). Given the potential for strong financial spillovers in the euro area, the Eurogroup will also continue to pay close attention to national actions in relation to macro-financial stability (consistent with recommendation iv)." The note also signals that the Eurogroup will look into national implementation of agreed reforms and investments: "*As regards the latter* [implementation], *the euro area recommendation on strengthening national institutional frameworks partly relates to this particular challenge. Cross-border projects can ensure synergies between national plans.*" The Eurogroup ultimate objective would be to "*ensure that the overall impact of the RRF in the euro area exceeds the sum of individual RRPs.*"

The EG plan further discussions around national RRPs on 15 February and 17 June.

Box: RRF and EP scrutiny

The European Parliament has a specific role to play in scrutinising the RRF and the use of EU funds throughout the European Union Investment Instrument (EURI). Notably, the European Parliament can launch the Recovery and Resilience Dialogues with the Commission and will notably be receiving information from the Commission on the RRPs, on the Commission assessments and on Member States meeting the agreed milestones and targets. Through the Interinstitutional Agreement negotiated with the Council and the Commission, Parliament will also be able to scrutinise the use of EURI. The Commission plans to start issuing bonds to finance the RRF as soon as the framework is in place (which is dependent upon the new Own Resources Decision being ratified by all the Member States). Once the RRPs are adopted, Member States can request the Commission to release the pre-financing (up to 13% of their allotted quotas for grants and, if applicable, 13% of their loan requests). The Commission estimates issuance for the RRF to start in mid-2021.

Fiscal surveillance

The Commission stated on 18 November 2020 - when it published its opinions on the 2021 Draft Budgetary Plans - on the question when and how the currently activated general escape clause of the SGP will be deactivated: "*In 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.*"

The European Fiscal Board stated already in July 2020 that a review date and the conditions for an exit from the escape clause have not been indicated and should be discussed and agreed as soon as possible. It also noted that ''*In principle, the clause should be deactivated as soon as the severe economic downturn in the EU and the euro area comes to an end. However, there is no commonly accepted or agreed definition of a severe economic downturn. The Commission and the Council may hold different views. Also within the Council views may diverge considerably, especially if the economic impact of the Covid-19 crisis differs across countries: some may soon embark on an upturn, others may experience negative growth for longer.*''

Against this background, and on the basis of a request of the ECON Committee, academics have provided expertise on "How and When to deactivate the general escape clause of the SGP" (see box below).

Box: Expertise on how to deactivate the general escape clause

Key findings by **Erik Jones** (Johns Hopkins University SAIS) are:

The activation of the general escape clause rested on the identification of a severe economic downturn affecting the euro area or Union as a whole. 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.'

He adds in his conclusions: *'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. The SGP makes provision for this through the unusual circumstances clause. More important, the European Recovery Program provides an opportunity to enhance the credibility of the European Union's pattern for fiscal policy surveillance and macroeconomic policy coordination while at the same time replacing national fiscal stimulus that might be removed through consolidation efforts.*

Key findings by **Gern, Kooths and Stolzenburg** (Kiel Institute for the World Economy) are:

The general escape clause should be lifted as soon as epidemiological conditions allow for a sustained normalisation of economic activity. This could be the case in 2022, if vaccines are made available to a sufficiently large share of the population in 2021.

Under the current framework, we propose a transitory arrangement following the deactivation of the general escape clause in which all Member States remain under the preventive arm of the SGP. Reflecting increased uncertainty about the long-run effects of the crisis on the economy, the corrective arm would remain idle for another two years and the Commission would consider pre-crisis estimates of potential output as a benchmark to determine fiscal adjustment needs.

The period under the general escape clause could be used to redesign the fiscal framework, but it is difficult to see a consensus emerge. Criticism of the current rules has led to numerous reform proposals, albeit with quite different approaches. Changing the fiscal rules to allow for higher debt ratios or structural deficits amid the current low-interest rate, low inflation environment will keep high-debt countries vulnerable to changes in perceptions of financial markets and a possible increase in interest rates. Focusing on expenditure rules would not eliminate the need for cyclical adjustment and has its own problems. An alternative approach that aims at re-establishing the no-bailout rule laid down in the Maastricht treaty would eventually allow to dispose of fiscal surveillance entirely. This would require fundamental reforms to disentangle the bank-sovereign doom loop and to allow for orderly restructuring of public debt. A way forward could be a transitory regime in which refinancing costs of Member States are subsidised in the case of excessive yield spreads by transfers out of a fund that is financed by all Member States.

Key findings **by Luisa Lambertini** (École Polytechnique Fédérale de Lausanne) are:

The most important finding is that, first and foremost, lifting the GEC and returning to the prescription of the SGP should avoid making fiscal policy pro-cyclical. This implies that deactivation should take place only once the economies have recovered from the effects of the pandemic and it is clear that they are approaching their pre-Covid-19 levels. Lifting the GEC when economies are still in a downturn would prolong the recession, deteriorate public finances and ultimately defeat the purpose of activating the GEC. Institutional trust may also suffer. The second important finding is that pre-Covid-19 economic conditions, as captured by the Commission autumn 2019 forecast of the 2020 output gap or the 2019 level of real GDP, should be taken as a reference for lifting the GEC. Each Member State should revert to the prescription of the SGP when this State's output gap has returned to its pre-Covid-19 level. Such Member State-specific return to the SGP can be implemented by deactivating the GEC, which is common to all Member States, and invoking the clause for unusual events for the countries that fall short of their pre-Covid-19 economic conditions.

The ECB Pandemic Emergency Purchase Programme has contributed greatly to making the cost of new public debt negligible or even negative in the EA during the Covid-19 crisis, by keeping sovereign debt. Maintaining government debt yields at low levels after the pandemic would help public debt sustainability and would attenuate the negative impact of debt reduction on GDP. High-debt Member States, in particular, should take advantage of periods with low rates to reach and maintain their updated MTOs and reduce debt.

Key findings by **Martin and Ragot** (Sciences Po, OFCE and Conseil d'Analyse Economique) are:

The deactivation of the General Escape Clause should be state-dependent not time-dependent and therefore should take place only when 1) a reform of the SGP has been agreed upon, 2) the EU has returned to its pre-crisis level in terms of GDP per capita or employment. The state-dependent strategy should also apply at the country level. We make proposals for country specific fiscal recommendations during the transitory period, before the activation of new rules, with the objective of avoiding pro-cyclical policies, allowing transitory fiscal stimulus and avoiding an unmotivated permanent increase of their structural deficit.

Surveillance of macro-economic imbalances

The implementation of the Macroeconomic Imbalance Procedure (MIP) is heavily affected by the measures taken by the EU in reaction to the pandemic, as is the whole Semester, of which it is an integral component. The impact, mainly related to the interplay between the Semester and the RRF, is on both the content and the timeline of the procedure.

From the procedural standpoint:

- the Country reports, usually part of the "winter package" published in February, will be integrated with the assessments of Recovery and Resilience Plans submitted by Member States in the context of the Recovery and Resilience Facility. Such assessments are expected by June 2021;
- the In-Depth-Reviews (IDR) for countries considered at risk of macroeconomic imbalances, which are usually part of the Country reports, will be published in late spring 202;
- the "Specific monitoring" of countries experiencing macro-economic imbalances in the 2020 Semester cycle is not taking place now, but will also be integrated with the assessments of the national RRPs;

According to the 2021 Alert Mechanism Report (AMR) surveillance activities need to focus on countries that were already identified as having imbalances or excessive imbalances in February 2020. Therefore, the Commission will prepare for:

- Croatia, France, Germany, Ireland, Netherlands, Portugal, Romania, Spain and Sweden (the nine Member States experiencing imbalances) and for
- Italy, Greece and Cyprus (that were experiencing excessive macroeconomic imbalances).

On 18 January 2021, the Eurogroup held a thematic discussion on "Imbalances in the EA in the wake of the COVID19 crisis", on the basis of a note prepared by the Commission staff, showing how the COVID-19 crisis runs the risk of aggravating the pre-existing macroeconomic imbalances in the euro area. According the Commission staff note: "*a strong implementation of relevant reforms and investments, while making full use of the EU support measures, should tackle the identified imbalances. Addressing imbalances going forward will be key to prevent the risk of accentuating divergences within the euro area. Widening spreads leading to a feedback loop from debt to credit conditions and therefore growth prospects need to be avoided. For the euro area in particular, this requires the implementation of reforms that strengthen productivity and employment, ensure a smooth allocation of resources and improve the functioning of markets and public administration, as well as increasing the level of public and private investment. The RRF and other financial support instruments put in place at euro area and EU level, including SURE, REACT-EU and higher flexibility in the use of remaining EU funds, can help create the conditions for a durable recovery and strengthen resilience.* "

The President of the Eurogroup stated "*... while we acknowledged that risk, we also acknowledged in recent weeks that there have been very positive developments. (...) We are still very much aware within Eurogroup of the need to maintain support to homes, to workers and to businesses as they face the economic consequences of prolonged health restrictions. Our discussion today reconfirmed the very strong consensus on the need to maintain a supportive budgetary stance.*"

On 19 January 2021, the ECOFIN approved its conclusions on the 2021 AMR.

2021 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-19 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-19 crisis response: the 2021 EAR is clearly orientated to policies aiming at counteracting the effects of the COVID-19 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, notably on 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 RRF agreed text keeps references to the RRPs being consistent with the challenges and priorities identified in the most euro area recommendation.

To assess implementation of previous EAR, one has to rely on proxies, such as the Eurogroup discussions. The COVID-19 crisis and policy responses were the central theme of discussions at the EG (in inclusive format) from 16 March onwards. The EG discussed the crisis notably at its 16 March and 24 March meetings, where it agreed a comprehensive EU response to the COVID-19 crisis for discussion by Heads of State and Government. Nevertheless, the EG still discussed a number of issues addressed by the 2020 EAR such as:

- Deepening of the EMU and strengthening of the Banking Union and, notably, reached an agreement on 30 November to an earlier entry into force of the backstop to the Single Resolution Fund (SRF);
- The euro area fiscal policies were often discussed and referred to in the EG, in particular in light of COVID-19 developments; similarly, the EG continued to follow up on surveillance of previous financial assistance programmes;
- Ministers discussed priorities to be set out in national recovery and resilience plans and agreed EG should have a role in the RRF.

The Eurogroup discussed the EAR in its 16 December 2020 meeting. The Eurogroup Working Group is said to have discussed and agreed the EAR at its meeting on 7 January (no public disclosure of the outcome of such discussion). Comparing the version of the EAR submitted to ECOFIN (available here) with the Commission proposed text, the most relevant differences relate to:

- a clarification in recital 7 that the general escape clause of the SGP is to remain active in 2021 but be reassessed in Spring 2021;
- a reference in EAR 5 and recital 16 that the further deepening of the EMU would need to encompass the lessons learned from the measures implemented to deal with the current COVID-19 crisis;
- in recital 16, the replacement of a reference that New Generation EU had "stabilisation functions" to "stabilising effects" and evolution from "Completing" the Capital Markets Union to "Deepening" the Capital Markets Union;
- a more inclusive tone in EAR 1 and 2, by adding references to health and social protection systems available "for all" (in EAR 1) and to "strengthen inclusion" in EAR 2;
- stronger wording on the primacy of an international consensus on digital taxation, ahead of an EU solution, seen as a default (in EAR 2);
- more nuanced reference to the fight against fraud, corruption, money laundering and terrorism

financing by referring "*Continue to improve*" the respective preventive frameworks instead of "*Put in place an effective...*" in EAR 3;

- deletion, in EAR 5 to the Commission reference to "*Increase the efficiency, proportionality and overall coherence of the bank crisis management and depositor insurance framework, including robust Banking Union safety nets as short-term priorities*" and inclusion of a reference to "*Work further on solutions for overcoming limitations in the current set-up for liquidity provision in resolution and on strengthening the European regulatory and supervisory framework, including by ensuring consistent and effective supervision and enforcement of anti-money laundering rules*".

Throughout the text, references to "*support*" in the context of the current COVID-19 crisis have been replaced by "*emergency*" measures, consistently with the vision of the RRF and New Generation EU as emergency and temporary measures. The 2021 EAR will now be submitted to the European Council for endorsement.

Further reading:

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

4. Some other EU/EA policy measures taken mitigate the effects of the pandemic

The new ESM credit facility

On 9 April 2020, the EG agreed a new and temporary Pandemic Crisis Support (PCS) instrument as part of a three pronged approach to deal with the COVID-19 crisis (the other two initiatives being the SURE - see below - as a safety net for workers, and further initiatives by the European Investment Bank (EIB) to offer relief to companies)[3]. On 8 May, the Eurogroup agreed on the features and standardised terms of the instrument and on 15 May, EG and the ESM Board of Governors finalised the PCS.

The EG established that assistance under PCS is available to any Euro Area Member State and is to be used for covering costs related to direct and indirect healthcare, cure and prevention due to the COVID-19 crisis (non-euro area Member States can access the Balance of Payments facility). It also established that the PCS is to be offered with similar conditions to all Member States, including the same current eligibility requirements for acceding ESM's precautionary assistance.

The PCS is based on the current ESM Enhanced Conditions Credit Line (ECCL) and will allow granting precautionary financial assistance of up to 2% of 2019 GDP to requesting Member State, as a benchmark. On 9 April, the Eurogroup decided that a Member State requiring access to the PCS would remain committed, after the covid-19 crisis is over, "*to strengthen economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions*". No further conditionality is attached to the PCS.

On 8 May the Commission proposed a common template for the Response Plan that Member States will use to detail the costs incurred or planned to implement the policy measures to be associated with financing under the PCS. Such template will correspond to the Memorandum of Understanding as per Articles 13(3) and 14(2) of the ESM Treaty and Article 7 of Regulation 2013/472[4].

No euro area Member State has made use of the PCS so far. The ESM website provides additional information on the PCS. See also EGOV briefing The ESM Pandemic Crisis Support (August 2020)

SURE

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

[3] For an overview of measures taken to fight the COVID-19 effects please see specific EGOV briefing.

[4] Regulation (EU) No 472/2013 of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability.

May 2020. SURE aims at providing financial support for Member States 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 EUR 100 billion euro on behalf of the Union. Such borrowing is guaranteed by the Union and by a back-guarantee of (at least) EUR 25 billion euro, provided by all Member States.

Financing is provided upon request of the Member State 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 Member State 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 18 January, the Council already approved a total of EUR 90.3 billion in financial support to 18 Member States. EUR 39.5 billion has already been disbursed to Italy, Spain, Poland, Greece, Croatia, Lithuania, Cyprus, Slovenia, Malta, Latvia, Belgium, Romania, Hungary, Portugal and Slovakia (see here). Issuances were on maturities of 5, 10, 15, 20 and 30 years. EU SURE bonds are listed in Luxembourg.

See also separate EGOV briefing: The SURE: Main features (April 2020)

See Annex 2 for an overview of the current EU/EA financial support instruments.

5. Financial assistance programmes and reform of European Stability Mechanism

Reform of European Stability Mechanism (ESM)

On 30 November 2020, the Eurogroup agreed to proceed with reform of the ESM, which was initially agreed to in December 2019[5], to sign the revised Treaty in January 2021 and launch the ratification process. The reform of the ESM provides for the establishment of a common backstop to the SRF in the form of a ''last resort'' credit line. The common backstop will moreover become operational as of 2022, two years ahead of the original schedule. This decision follows improvements in the risk reduction indicators in the banking sector, as reported in the November 2020 monitoring report. The Intergovernmental Agreement on the Single Resolution Fund is being amended at the same time as the ESM Treaty. However, it must be noted that this progress does not address the issue of ensuring adequate liquidity in resolution. However, as aforementioned, EG Ministers will focus on progress on liquidity in resolution in the first half of 2021.

See also separate EGOV briefings: The proposed amendments to the Treaty establishing the European Stability Mechanism - January 2021 and the European Stability Mechanism: Main Features, Instruments and Accountability - October 2019.

Post-programme surveillance: latest developments on Greece enhanced surveillance

The latest enhanced surveillance report (November 2020) on Greece is based on the findings of a mission which the Commission (in liaison with the ECB, IMF and ESM) held remotely on 19 and 20 October 2020 and on a regular dialogue with the Greek authorities. The report concluded that in spite of the adverse circumstances caused by the pandemic, Greece has taken the necessary actions to achieve its due specific commitments: The unprecedented events have led to a standstill, in the first half of the year, on a number of of reforms in view of the need to address more immediate priorities, but the authorities managed to restart the work on the commitments in the past months and delivered on a number of fundamental reforms. Most importantly, the insolvency code has been adopted in the Parliament and a long-standing bottleneck to the human resources reform of the Independent Authority for Public Revenues is being addressed. The report

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

also notes that the authorities are also advancing on flagship privatisation transactions, although others are delayed due to the pandemic. Furthermore, good progress has been made in the fields of fiscal-structural reforms, public administration and energy.

Similarly to the previous enhanced surveillance reports, the latest one paid particular attention to assessing the implementation of the 16 specific reform commitments by 2020 annexed to the Eurogroup statement of June 2018 as well as the general commitment to continue and complete the key reforms launched under the programme; 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 (more information on these medium-term debt is presented in this ESM explainer).

The Eurogroup of 30 November 2020 welcomed the conclusions of the latest enhanced surveillance report, including that the necessary conditions are in place to confirm the release of the fourth tranche, worth €767 million, of above mentioned policy-contingent debt measures (transfer of SMP-ANFA income equivalent amounts and the reduction to zero of the step-up interest margin on certain EFSF loans). Furthermore, it states that the increased uncertainty entailed by the pandemic continues to underscore the need to tackle decisively the existing medium-term risks and challenges identified in the enhanced surveillance report. The Eurogroup therefore calls on Greece to maintain and where necessary strengthen reform efforts to further support the economic recovery, improve the resilience of the economy and strengthen long-term potential growth. In this context, it highlights the importance of using the funds available under the Recovery and Resilience Facility to maximum effect by implementing an ambitious pro-growth reform agenda.

End of December 2020, the ESM completed a transfer of €644.42 million to Greece, corresponding to the before-mentioned SMP/ANFA holdings. At the Eurogroup press conference of 30 November, ESM Managing Director Klaus Regling stated that the transfer to Greece linked to the cancellation of the step-up interest margin on certain EFSF loans will be made by the ESM after national procedures have been completed.

More information on enhanced surveillance on Greece, post-programme surveillance on Cyprus, Ireland, Portugal and Spain and on the previous EU macro-financial assistance programmes for these countries and Romania is available in a separate EGOV briefing.

6. Banking Union: recent developments

On 15 December 2020, the ECB warned that banks should continue to exercise extreme prudence and, reflecting an assessment of the stability of the financial system, asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021.

Recent banking developments: Non-performing loans

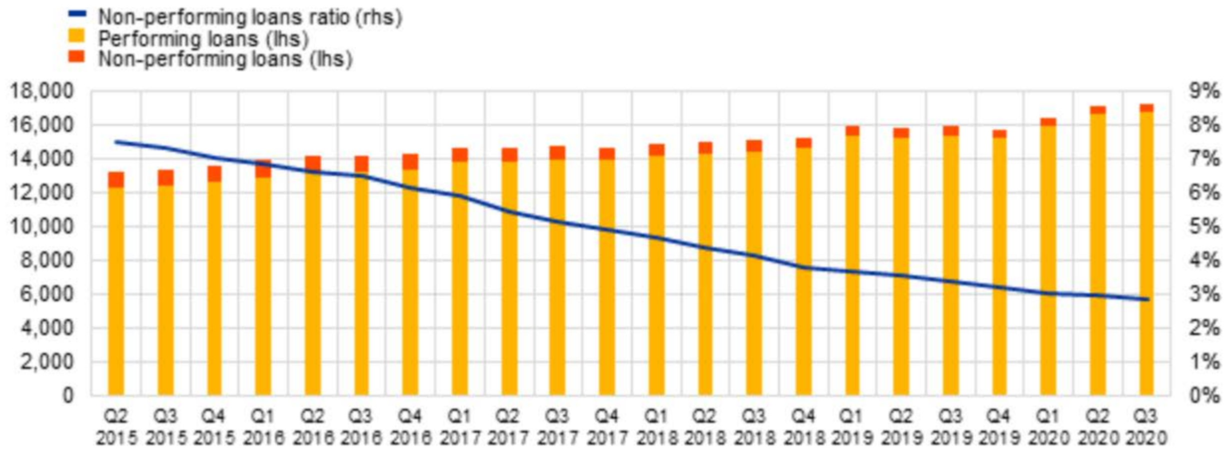
On 13 January 2021, the ECB published its most recent edition of the "supervisory banking statistics", which illustrates the aggregate performance of the largest banks in the euro area ("significant institutions"), based on data for the third quarter of 2020.

The level of non-performing loans (NPLs) serves as a key indicator for the quality of the banks' loan books.

The ECB's most recent data shows that the aggregate NPL ratio fell to 2.8% in the third quarter of 2020, which marks the lowest level since that data was first published in 2015; that ratio is 0.6% lower than in the third quarter of 2019.

An analysis of the underlying data shows that the improved ratio can be attributed to both a numerator effect (i.e. a decline in the total stock of NPLs by €58 billion, y-o-y) and, more importantly, a denominator effect (i.e. an increase in the total amount of loans by 8%, or €1.240 billion, y-o-y). The NPL ratio continued its long-term trend of a steady decline (see chart below).

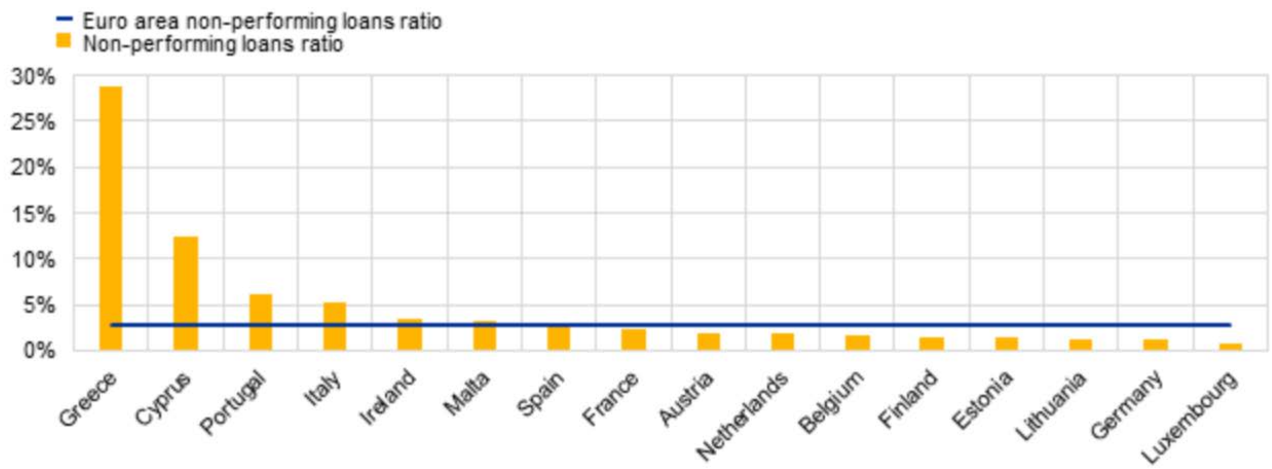
Non-performing loans by reference period ((EUR billions; percentages)



Source: *ECB*

The dispersion of NPLs across MS, however, remains highly skewed (see chart below), significant banks in Greece have the highest NPL ratio by far. That situation is not likely to improve in the near term: in January, the Governor of the Bank of Greece, Yannis Stournaras, warned against the impact of the current crisis, saying that "*the burden from new Covid-19 related defaults will be higher for banks that already had a high stock of NPLs such as Greek banks*". In the same context Stournaras promoted the proposal to set up a national Asset Management Company, meant to address the top two challenges for Greek banks, i.e. the high level of NPLs and the large amount of deferred tax credits that still count for a considerable part of Greek banks' capital. According to the European Commission's Enhanced Surveillance report on Greece, published in November 2020, the deferred tax credits (EUR 15.4 billion in total) represent 60.4% of the Greek banks' Common Equity Tier 1 capital position as of June 2020.

NPL ratio by country for the third quarter of 2020 (percentages)



Source: *ECB*

Overview of pandemic related measures

The COVID-19 pandemic outbreak has triggered both the Member States as well as the EU institutions to implement various measures in order to safeguard financial stability of the banking system. The large array of measures can be broadly grouped into three categories: (i) monetary policy, (ii) supervisory measures, and (iii) macroprudential policy measures.

The first monetary policy response was voted on 12 March Governing Council meeting, where the decision was made to set interest rates for main refinancing operations at 0%, for marginal lending facility at 0.25% and for the deposit facility at -0.50%. One week later, the Governing Council has decided to launch the Pandemic Emergency Purchase Programme that has been gradually increased from EUR 750 billion to EUR 1850 billion. Among other monetary policy measures, that were aimed at helping banks with liquidity and lending capacity, were easing of collateral eligibility measures, swap and repo lines with major global central banks, introduction of new and extension of old long-term refinancing operations.

The exit strategies and their timing have been highlighted on many occasions, however, as Christine Lagarde has recently warned *"any kind of tightening at the moment would be very unwarranted"*. According to the President of the ECB, there is likely to be an economic activity rebound in 2021, as the pandemic outbreak is being brought under control, however, when it comes to monetary policy tightening, the timing is not yet right. This also raises concerns over the suitable timing and manner for exiting other stimulus measures.

For the supervisory measures, both national supervisors and the ECB, has relaxed the capital buffer requirements and allowed banks to fully use their capital and liquidity buffers, including Pillar 2 Guidance. In order to support lending to the real economy, it was advised to avoid procyclical assumptions in provisioning and use some flexibility in NPL classification and implementation of reduction strategies. The EBA has issued guidelines that allowed banks to apply payment moratoria for their clients without reclassifying them as defaulted or under forbearance. Also, in order to give banks more operational capacity to handle the crisis outbreak, implementation of Basel III and annual stress test exercise were postponed.

Macroprudential policy authorities have also contributed to the ability of the financial sector by releasing the accumulated macroprudential buffers (in the cases where such buffers were accumulated by the banks before the outbreak of the pandemic) giving the much needed liquidity support and lending capacity to the banks. Also, the European Systemic Risk Board (ESRB) issued 5 recommendations that were aiming to address various challenges stemming from the coronavirus pandemic (such as liquidity risks in investment funds or arising from margin calls among others) and its potential impact.

A more detailed list of pandemic related measures can be found in a dedicated EGOV document.

Work to complete the Banking Union

The Council Presidency has prioritised the establishment of a **European Deposit Guarantee Scheme** (EDIS) during its term. Following a report back from the High Level Working Group (HLWG) on EDIS at its November 2020 meeting, the President of the Eurogroup noted that *" [the Eurogroup] took stock of the steady progress in the High-Level Working Group on other elements of banking union. Now that we reached an agreement on the ESM reform, we are in a good position to move forward in other areas"*. In an interview with the Financial Times in December 2020, President Donohoe indicated that he would aim for a new detailed banking union work plan in mid-2021. He further indicated he would prioritise work on EDIS, the crisis management framework, cross market integration, and addressing the sovereign-bank nexus.

The HLWG was initially set up by the Eurogroup in December 2018. Following an initial report in June 2019, the Chair of the HLWG reported back in a December 2019 letter, proposing a programme of action so as to complete the Banking Union. Ministers mandated the HLWG to continue working and report back by June 2020. However, this deadline was pushed to December 2020 due to the COVID-19 crisis. Following the December 2020 Euro Summit, Leaders invited the Eurogroup, in its inclusive format, *"to prepare, on a consensual basis, a stepwise and time-bound work plan on all outstanding elements needed to complete the*

Banking Union." This work is in parallel to the Council Ad Hoc Working Party on the Strengthening of the Banking Union (latest available report, from the German Presidency, is available here).

Completing the Banking Union also remains a priority for the Commission, as most recently emphasised in its Communication on the European economic and financial system published on 19 January 2021 (see box below). According to the Commission's 2021 Work Programme, a revision of the **bank crisis management and deposit insurance framework** was anticipated for Q4 2021. The Commission's public consultation on the initiative (which ended in December 2020) states that it aims to *"make the framework more efficient, flexible and coherent for handling the resolution or insolvency of EU bank failures; ensure depositors receive equal treatment; and to give depositors more protection, including by possibly creating a common depositor protection mechanism."*

Box: The European economic and financial system: fostering openness, strength and resilience

A recent European Commission communication unveiled proposals to strengthen the EU's open strategic autonomy and resilience on the back of EU commitments to a more resilient and open global economy, well-functioning international financial markets, and the rules-based multilateral system. The proposals include actions to promote the international role of the euro, strengthen the EU's financial market infrastructures, improve the implementation and enforcement of EU's sanctions' regimes, and increase its resilience to the effects of the unlawful extra-territorial application of unilateral sanctions and other measures by third countries.

The 15 key actions proposed by the Commission include, among others, assessing possible technical issues relating to the relocation of derivatives to the UE (key action 8), exploring ways to ensure the uninterrupted flow of essential financial services, including payments, with EU entities or persons targeted by the extra-territorial application of third-country unilateral sanctions (key action 9), ensuring that EU funds are not used in violation of EU sanctions (key action 12) and strengthen cooperation on sanctions (key action 14). The Commission further reinforces its commitments towards completing the Banking Union and making further significant progress on the Capital Markets Union as a means of supporting the resilience of the EU and deepening the EMU.

The Commission urges all relevant stakeholders to join efforts in implementing these measures and commits to monitoring them on an ongoing basis and review implementation of results obtained in 2023.

Annex 1A: EA Gross domestic product

	Eurostat* (12/2020)					EC (11/2020)			IMF (10/2020)			ECB (12/2020)			OECD (12/2020)		
	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
BE	1.8	1.7	-3.4	-11.8	11.4	-8.4	4.1	3.5	-8.3	5.4	2.7	-6.7	3.5	3.1	-7.5	4.7	2.7
DE	1.3	0.6	-1.9	-9.8	8.5	-5.6	3.5	2.6	-6.0	4.2	3.1	-5.5	3.0	4.5	-5.5	2.8	3.3
EE	4.4	5.0	-0.8	-5.5	3.3	-4.6	3.4	3.5	-5.2	4.5	3.7	-2.5	2.9	4.2	-4.7	3.4	3.3
IE	8.5	5.6	-3.5	-3.2	11.1	-2.3	2.9	2.6	-3.0	4.9	4.3	0.5	3.1	3.9	-3.2	0.1	4.3
EL	1.6	1.9	0.1	-14.1	2.3	-9.0	5.0	3.5	-9.5	4.1	5.6	-10.0	4.2	4.8	-10.1	0.9	6.6
ES	2.4	2.0	-5.3	-17.9	16.4	-12.4	5.4	4.8	-12.8	7.2	4.5	-11.1	6.8	4.2	-11.6	5.0	4.0
FR	1.8	1.5	-5.9	-13.8	18.7	-9.4	5.8	3.1	-9.8	6.0	2.9	-9.3	4.8	5.0	-9.1	6.0	3.3
IT	0.9	0.3	-5.5	-13.0	15.9	-9.9	4.1	2.8	-10.6	5.2	2.6	-9.0	3.5	3.8	-9.1	4.3	3.2
CY	5.2	3.1	-0.9	-13.1	9.4	-6.2	3.7	3.0	-6.4	4.7	3.6	-6.2	4.1	3.4			
LV	4.0	2.1	-2.3	-7.1	7.1	-5.6	4.9	3.5	-6.0	5.2	5.0	-4.7	2.8	5.3	-4.3	2.4	4.0
LT	3.9	4.3	0.0	-5.9	3.8	-2.2	3.0	2.6	-1.8	4.1	3.7	-2.0	1.9	4.0	-2.0	2.7	3.1
LU	3.1	2.3	-1.5	-7.4	9.8	-4.5	3.9	2.7	-5.8	5.9	3.7	-5.2	4.7	5.0	-4.4	1.5	3.8
MT	5.2	4.9	-2.7	-17.1	12.7	-7.3	3.0	6.2	-7.9	4.8	5.5	-7.5	5.9	4.4			
NL	2.4	1.7	-1.5	-8.5	7.7	-5.3	2.2	1.9	-5.4	4.0	2.1	-4.3	2.9	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	-6.7	4.6	2.1	-7.6	3.0	4.0	-8.0	1.4	2.3
PT	2.8	2.2	-4.0	-13.9	13.3	-9.3	5.4	3.5	-10.0	6.5	4.8	-8.1	3.9	4.5	-8.4	1.7	1.9
SI	4.4	3.2	-4.7	-9.8	12.4	-7.1	5.1	3.8	-6.7	5.2	3.4	-7.6	3.1	4.5	-7.5	3.4	3.5
SK	3.8	2.3	-	-	-	-7.5	4.7	4.3	-7.1	6.9	4.8	-5.7	5.6	4.8	-6.3	2.7	4.3
FI	1.5	1.1	-1.5	-3.9	3.3	-4.3	2.9	2.2	-4.0	3.6	2.0	-3.8	2.2	2.5	-4.0	1.5	1.8
EA	**1.9**	**1.3**	**-3.7**	**-11.7**	**12.5**	**-7.8**	**4.2**	**3.0**	**-8.3**	**5.2**	**3.1**	**-7.3**	**3.9**	**4.2**	**-7.5**	**3.6**	**3.3**
EU	**2.1**	**1.5**	**-3.3**	**-11.3**	**11.5**	**-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.*

Annex 1B: EA HICP Inflation (annual rate of change)

	Eurostat (12/2020)					**EC (11/2020)**			**IMF (10/2020)**			**ECB (12/2020)**			**OECD (12/2020)**		
	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
BE	2.3	1.2	0.4	0.2	0.5	0.4	1.4	1.6	0.6	1.2	1.4	0.4	1.7	1.9	0.5	0.7	0.6
DE	1.9	1.4	1.3	0.8	-0.4	0.4	1.4	1.3	0.5	1.1	1.3	0.4	1.8	1.3	0.4	1.1	1.3
EE	3.4	2.3	1.0	-1.6	-1.3	-0.5	1.4	2.1	0.2	1.4	2.2	-0.6	1.3	2.0	-0.7	1.3	2.1
IE	0.7	0.9	0.5	-0.6	-1.2	-0.5	0.3	1.6	-0.2	0.6	1.9	-0.6	-0.7	0.3	-0.4	0.4	1.0
EL	0.8	0.5	0.2	-1.9	-2.3	-1.3	0.9	1.3	-0.6	0.7	0.9	-1.3	-0.1	0.6	-1.2	-0.2	0.8
ES	1.7	0.8	0.1	-0.3	-0.6	-0.2	0.9	1.0	-0.2	0.8	1.4	-0.3	0.6	1.2	-0.3	0.4	0.6
FR	2.1	1.3	0.8	0.2	0.0	0.5	0.9	1.5	0.5	0.6	1.0	0.5	0.5	0.8	0.5	0.4	0.8
IT	1.2	0.6	0.1	-0.4	-1.0	-0.1	0.7	1.0	0.1	0.6	0.9	-0.2	0.5	0.9	-0.1	0.4	0.8
CY	0.8	0.5	0.1	-2.2	-1.9	-0.9	0.9	1.3	-0.6	1.0	1.0	-1.2	0.5	0.9			
LV	2.6	2.7	1.4	-1.1	-0.4	0.3	1.3	1.8	0.6	1.8	2.2	0.1	1.1	1.6	0.1	0.4	1.5
LT	2.5	2.2	1.7	0.9	0.6	1.3	1.5	1.7	1.3	1.7	1.9	1.1	1.1	1.8	1.2	1.5	1.8
LU	2.0	1.6	0.3	-0.4	-0.3	0.2	1.5	1.8	0.4	1.4	1.8	0.0	1.9	1.7	0.1	0.9	1.3
MT	1.7	1.5	1.2	1.0	0.5	0.8	1.3	1.6	0.8	1.1	1.4	0.8	0.9	1.4			
NL	1.6	2.7	1.1	1.7	1.0	1.1	1.3	1.4	1.2	1.5	1.5	1.2	1.5	1.5	1.0	0.9	1.1
AT	2.1	1.5	1.6	1.1	1.2	1.5	1.7	1.7	1.2	1.8	1.8	1.3	1.4	1.7	1.3	1.3	1.6
PT	1.2	0.3	0.1	0.2	-0.8	-0.1	0.9	1.2	0.0	1.1	1.2	-0.2	0.3	0.9	-0.2	-0.2	0.3
SI	1.9	1.7	0.7	-0.8	-0.7	0.0	0.9	1.8	0.5	1.8	1.7	-0.2	0.9	1.3	0.1	1.7	1.4
SK	2.5	2.8	2.4	1.8	1.4	2.0	0.7	1.4	1.5	1.5	1.9	2.0	0.6	1.8	1.9	0.9	1.4
FI	1.2	1.1	0.9	0.1	0.3	0.4	1.1	1.4	0.7	1.3	1.5	0.4	0.9	1.2	0.5	1.0	1.4
EA	**1.8**	**1.2**	**0.7**	**0.3**	**-0.3**	**0.3**	**1.1**	**1.3**	**0.4**	**0.9**	**1.2**	**0.2**	**1.0**	**1.1**	**0.3**	**0.7**	**1.0**
EU	**1.8**	**1.4**	**1.2**	**0.8**	**0.3**	**0.7**	**1.3**	**1.5**									

ANNEX 2: Current supranational financial support instruments based on EU market borrowing

Current supranational financial support instruments based on EU market borrowing (beyond the MFF programmes and EIB lending)					
	All EU Members States			Non-Euro Area Member States only	Euro Area Member States only
Main instruments/tools	**Recovery and Resilience Facility**	**SURE**	**EFSM**	**Balance of Payments Facility**	**ESM lending tools**
Name of executive EU body	Council / Commission	Council / Commission	Council / Commission	Council / Commission	ESM governing bodies (Board of Governors and Board of Directors)
Objective	Promotion of economic, social and territorial cohesion by improving the resilience and adjustment capacity of the Member States, mitigating the social and economic impact of the COVID crisis, and supporting the green and digital transitions	Address the impact of the COVID-19 outbreak and respond to its socio-economic consequences. Addressed to financing short term unemployment and employment support schemes	Preserve financial stability of the European Union by providing financial assistance to a Member State which is experiencing, or is seriously threatened with, a severe economic or financial disturbance caused by exceptional occurrences beyond its control	Provide balance of payments assistance to EU countries outside the euro area that are experiencing or threatened by difficulties regarding their balance of payments	Mobilise funding and provide stability support to ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States
Permanent or temporary	Temporary (payments until 31 December 2026)	Temporary (decisions on requests for funds by 31 December 2022)	Temporary	Permanent (as long EU budget enables it)	Permanent
Legal base	Regulation issued under Art. 175 (3) TFEU (pending finalisation)	Council Regulation (EU) 2020/672 of 19 May 2020, issued under Art. 122 TFEU	Council regulation 407/2010 issued under Art. 122 TFEU	Council regulation 332/2002 issued under Art 143 TFEU	Intergovernmental agreement based on Art 136 TFEU (ESM Treaty)
Loans and/or grants	Loans and grants	Loans	Loans and credit lines	Loans	Loans, credit lines, primary and secondary market support

Current lending/support capacity	EUR 672 bn (2018 prices)	EUR 100 bn at inception; around EUR 9,7 bn available	EUR 60 bn at inception; never increased. Around EUR 13,2 bn available	EUR 50bn at inception; EUR 13.4 bn utilised, EUR 0.2 bn available	Around EUR 704 bn subscribed capital. The current lending capacity available is around EUR 410 bn
Funding/Capital/Guarantee/Resources	Borrowings by Commission guaranteed by the EU budget	Borrowings by Commission guaranteed by the EU budget and Member States	EU budget guarantees (the margin of budget)	Borrowings by Commission guaranteed by the EU budget	Borrowings in international capital markets guaranteed by ESM capital
Decision-making /Implementation	Council	Council	Council	Council	ESM Board of Governors
Eligibility/Conditionality	Alignment with EU priorities; possibility of suspending payments in case of non-compliance with sound economic governance requirements. Disbursement pending on the achievement of milestones	Amounts available are to be used to cover increases in health related expenses due to COVID-19 crisis	Strict economic macro-conditionality enshrined in an economic and financial adjustment programme	Strict economic macro-conditionality enshrined in an economic and financial adjustment programme	Depending on the financial assistance instrument