

Economic Dialogue with the President of the Eurogroup



ECON on 21 June 2021

Paschal Donohoe is attending his second [Economic Dialogue](#) in the ECON Committee since being elected as President of the Eurogroup in July 2020. His first Economic Dialogue took place on 25 January.

The exchange of views 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 measures relating to the Economic and Monetary Union governance framework, including completing the Banking Union.

This briefing covers the following issues: the Eurogroup work programme until June 2021 (Section 1); 2021 Euro Area Recommendation (Section 2); Economic situation and developments (Section 3); Recovery and Resilience Facility (Section 4); 2021 European Semester Cycle (Section 5); review of the governance framework (section 6) and Banking Union developments (Section 7).

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 (July-December 2021)

The Eurogroup approved its tentative work programme for the second semester of 2021 in May. The [work programme](#) foresees the Eurogroup to focus on:

Economic and fiscal policies to support the recovery and long-term growth: through coordination and dialogue, the Eurogroup will seek to stabilize the economy and support the recovery whilst also focusing on promoting structural reforms and investments that foster recovery and convergence and contribute to the goals of a green and digital transitions. It will assess the Draft Budgetary Plans, discuss the euro area fiscal stance, and discuss lessons learned from the COVID crisis (notably in terms of accentuating divergences and the health of the corporate sector).

Strengthening the Banking Union: the Eurogroup will continue working on a stepwise and time-bound work plan on all outstanding elements needed to complete the Banking Union and on deepening the Capital Markets Union.

The euro as a digital currency: the Eurogroup supports the work being done by various institutions. Due to the complexity of the project, the Eurogroup will revert to this topic regularly and discuss its various dimensions, focusing on their political relevance, in full respect of the institutional roles and mandates of all actors involved.



International role of the euro: The Eurogroup will continue to discuss how to strengthen the role of the euro on the international stage, aiming at making the euro area more robust by pursuing sound economic policies (by deepening the EMU, completing the Banking Union, and the Capital Markets Union - see section 7 below). The Eurogroup also intends to discuss the political dimensions of the development of the euro as the currency of the sustainability transition.

As in previous semesters, the Eurogroup will continue **liaising with its international partners**, continue to monitor the plans and actions of non-euro area Member States' related to the introduction of the euro, and the economic situation, policy response and recovery needs after the COVID19 pandemic. It will prepare and follow up to the Euro Summit meetings and continue ensuring transparency and communication with citizens.

The EG met on [17 June](#) to discuss, notably, the post-programme surveillance reports on Cyprus, Portugal, Ireland and Spain and the tenth enhanced surveillance report on Greece and policy-contingent debt measures (see specific [EGOV briefing](#) for an overview and annex 1 for an overview of available instruments); the interim outcome of the IMF staff visit in the context of its article IV surveillance of the euro area and Banking Union issues (in inclusive format, see further Section 7), ahead of a [European Council](#) convened for the 24-25 June and the [Euro Summit](#) of the 25 June. Ministers issued also a [press statement](#) on Greece.

Following the June EG meeting, Paschal Donohoe made the following [remarks](#): *"I want any work plan that the Eurogroup issues to be credible, ambitious and effective, because this is about building a Banking Union that's good for jobs in Europe, investment in Europe, and good for the competitiveness in Europe. We will get to that point, but it will take some more time to achieve that outcome.*

Good progress has been made and the discussions that have taken place have been intense, but they have been insightful and they have been constructive. And in the Eurogroup this evening, all member states recommitted themselves to trying to get agreement, and I will be harnessing that renewed agreement to get to that work plan in the coming months. It was a Eurogroup that was efficient, that was very positive in tone, it gave us a good sense of what we have achieved. But it reminded all of us of what we need yet to achieve in order to deliver a sustainable and a durable recovery."

2) The 2021 Euro Area Recommendation

The Commission adopted the [draft 2021 euro area recommendation](#) (EAR) on 18 November 2020, accompanied by a [staff working document](#) analysing the euro area economy. The COVID-19 crisis and its responses are at the centre of concerns in both documents. Comparing the version of the EAR submitted to ECOFIN Council (available [here](#))¹ with the Commission's proposed text, the most relevant differences relate to:

- a clarification in recital 7 that the general escape clause of the Stability and Growth Pact (SGP) is to remain active in 2021 but be reassessed in Spring 2021 (see Section 3 below);
- 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;

¹ The European Council is expected to discuss the EAR at its [next meeting](#), on 24-25 June.

- 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's 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 Recovery and Resilience Facility and New Generation EU as emergency and temporary measures.

In the context of the [Recovery and Resilience Facility](#), the Eurogroup made clear as early as [October 2020](#) that it will be involved in coordinating implementation of such plans. This specific "euro area dimension" of the RRF and the role the Eurogroup plays was further underlined in a [background note](#) for the 18 January 2021 Eurogroup². The notes ascertains the role that the Eurogroup would take in assessing national RRFs and points to it being involved also in assessing 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 [tentative agenda](#) for October 2021 features a discussion on "*Stocktaking of the implementation of euro area priorities in the Recovery and Resilience Plans and lessons learnt from the European response to Covid-19*".

Box 1: Eurogroup governance: 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. At its meeting in [April](#), the Eurogroup "*agreed that no additional steps are called for at the current juncture*" and will continue taking stock and "*maintain this high standard going forward.*"

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.

² For further details on the EAR and Eurogroup involvement in the RRF, see specific [EGOV briefing](#).

3) Economic situation and developments

Economic growth and inflation

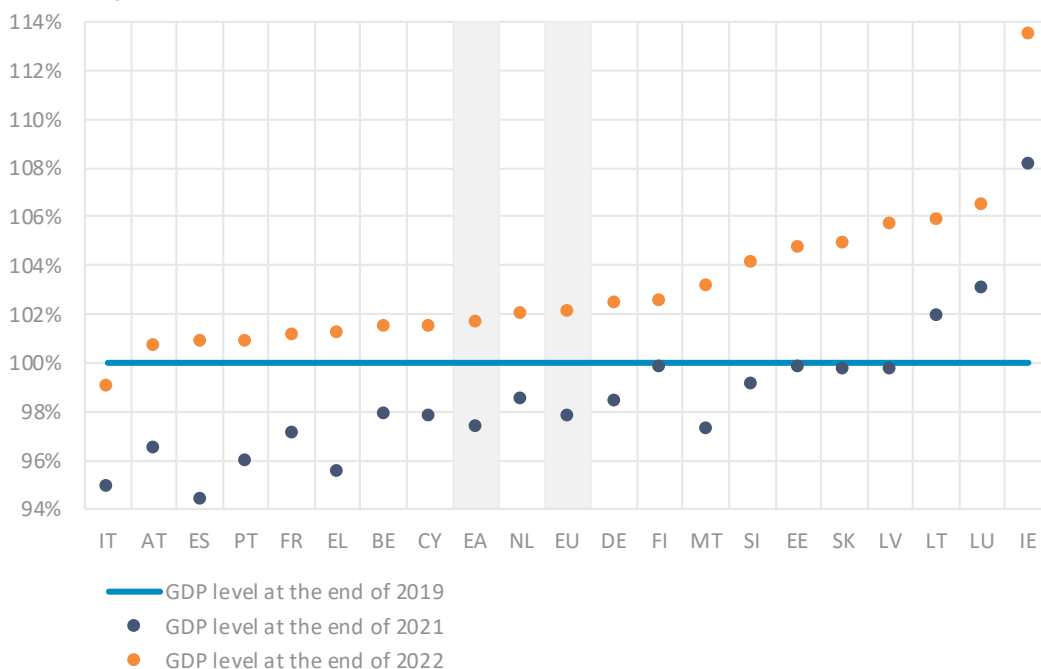
According to the latest Eurostat preliminary [flash estimate](#), the seasonally-adjusted quarterly **Gross Domestic Product** (GDP) in the euro area (EA) decreased by 0.3% in the first quarter of 2021, compared to the previous quarter. Annual **inflation** (measured by the Harmonised Index of Consumer Prices or HICP) in the EA has increased to 2.0% in May 2021 (up from 1.6% in April), according to a [flash estimate](#) from Eurostat.

Based on the Commission [Spring 2021 Economic Forecast](#) HICP inflation is expected to increase from 0.3% in 2020 to 1.7% in 2021 and to moderate to 1.3% in 2022 in the EA. Inflation is predicted to mainly be shaped by the same factors as in early 2021, namely rising energy prices and temporary factors such as tax changes. It is argued that *“The strong demand recovery and, to a lesser extent, high transport costs and other supply-side constraints also push inflation up over the forecast horizon”*; however, *“remaining slack in the economy and the labour market is ... expected to keep underlying inflationary pressures muted”*.

According to the Commission’s forecast, despite the stringency of confinement measures still imposed across the EU, economic activity has declined less at the beginning of 2021 than during the first half of 2020, which is attributed to *“better adaptation of firms and households to the constraints of the pandemic environment, stronger support from global growth and trade, and continued strong policy support [that] helped economic agents cope with the economic challenges”*. The economic recovery will be largely determined by the success of vaccination programmes and the speed of restrictions’ lifting, the state of the external economic environment, policy support intensity, households’ and companies’ investments, and long-term economic scarring. Although the forecast assumes that large-scale vaccination will take place by the end of the year, some limited containment measures are assumed to be in place as needed in 2022.

The EA economy is expected to grow by 4.3% in 2021 and strengthen to around 4.4% in 2022. The main drivers of growth are expected to be private consumption from accumulated savings, recovering investment and stronger demand for European exports. This forecast is more optimistic than the [Winter](#) one, primarily due to the stronger-than-expected rebound in global activity and trade and the growth impulse expected to be provided by RRF.

However, differences across countries in the pace of the recovery remain substantial. The Commission projects that most of the EU countries should recover to the GDP level observed at the end of 2019 (pre-pandemic level) by the end of 2022 (see Figure 1). Other major international organisations (namely the [IMF](#), the [OECD](#) and the [ECB](#)) are projecting the EA economy to grow in the range of 4.3%-4.6% in 2021 and 3.8%-4.7% in 2022. See Annexes 1 and 2 for further country specific information.

Figure 1: Member State GDP levels when compared to the end of 2019

Source: EGOV calculations based on [European Commission](#).

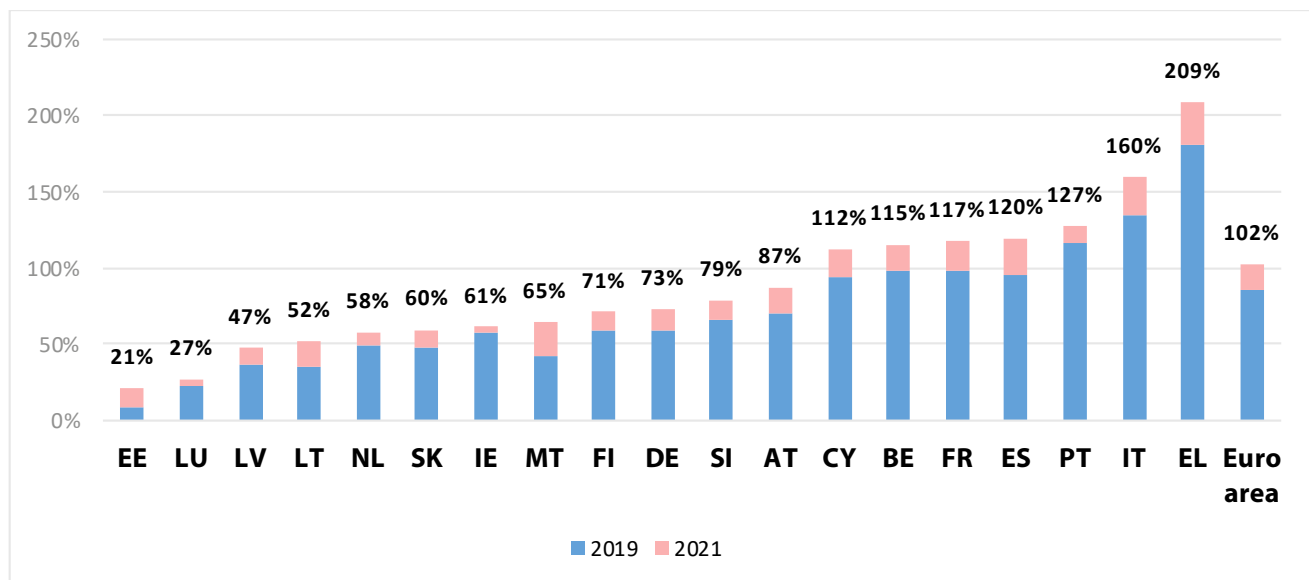
Lastly, the Spring Forecast emphasises the high level of risk associated with these projections. On the economic side, *“this forecast may underestimate the propensity of households to spend, or, on the opposite, consumers’ desire to maintain high levels of precautionary savings.”* Timing of policy support withdrawal is another driver of uncertainty, together with the impact of corporate distress on the labour market and the financial sector stability in the future. On the other hand, stronger than projected global growth could have a more positive impact on the European economy than what is forecast. The resulting inflation in the EU could rise more highly if the rebound in the European and global economies exceeds expectations or if current supply constraints remain over a longer period.

Public finances

According to the Commission [Spring 2021 Economic Forecast](#), the aggregated public deficit is projected to rise from 7.2% of GDP to 8.0% of GDP in the euro area. The deficit will be higher than 3% of GDP in 2021 in all euro area Member States except Luxembourg. In 2022, however, the aggregate public deficit is forecast to halve to about 4% in both the EU and the euro area.

In the euro area, the ratio of public debt to GDP is now forecast to peak at 102% in 2021 and falling slightly to 101% in 2022 (see Figure 2), which is a bit better than forecast in autumn 2020.

On 2 June, due to the exceptional circumstances, the Commission [services](#) also [provided](#), for each Member State, estimates on a specific indicator, the fiscal stance, which aims to assess the economic impulse stemming from fiscal policies, nationally financed as well as financed by the EU. This measures the change in primary expenditure (net of discretionary revenue measures, but including changes in expenditure financed by the RRF and other EU grants), but, taking into account the exceptional circumstances created by the impact of the COVID-19 pandemic, excludes crisis-related temporary emergency measures, relative to the 10-year average potential growth rate. Please see a [separate EGOV document on the implementation of the SGP during pandemic times](#) for these estimates per Member State. For an overview of a set of indicators relevant for the sustainability of public finances, please see [this EGOV document](#).

Figure 2: Public debt (as % GDP) in Euro Area Member States in 2019 and 2021

Source: [Commission Spring 2021 Economic Forecast](#)

When comparing data on some key indicators included in the 2021 Stability Programmes of euro area Member States and the Spring 2021 Economic Forecast of the Commission, one notices that regarding both 2021 and 2022, the figures suggest that Member States are in general less optimistic than the Commission regarding the budget balances, structural budget balances, debt and growth forecasts; for details of such a comparison, please see [separate EGOV document](#). One may note that during pre-pandemic times, Member States were often more optimistic than the Commission ([see here](#) and [here](#)).

Macro-economic imbalances

In its [Communication](#) of 2 June on “*Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy*”, the Commission notes that the main sources of imbalances are largely the same as a year ago, but that risks increased. While the pandemic crisis has not fundamentally altered the nature of Member States’ imbalances, it has interrupted their reduction and may increase the risks to macroeconomic stability. More specifically, government and private debt ratios have largely increased; this is explained by the recession (which reduced GDP in the denominator of the ratio) and by policies aimed at addressing the impact of the pandemic and to support the economy and the recovery. Large current account surpluses persist in some Member States. Several Member States with high debts levels also have low potential growth; the Commission states that “*In these cases, the efficient use of the Recovery and Resilience Facility to foster growth-enhancing investment and reforms will be instrumental*”.

As for the financial sector, the Commission highlights the risks related to the possible increase of non-performing loans related to debt repayment difficulties, especially when support measures are phased out. By contrast, the pandemic crisis seems to have decreased some vulnerabilities related to cost competitiveness pressures.

In the same Communication (and its Annex 1), the Commission presents a summary of its analysis and conclusions on the 12 Member States that it had identified as at risk of macroeconomic imbalances: see section 4 below and this [note](#) on the Implementation of the Macroeconomic Imbalance Procedure.

(Un)employment

The [EU Joint Employment report 2021](#) confirmed that the COVID-19 pandemic has reversed the a six-years positive trend in the EU labour markets. 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.

Table 1: Youth unemployment rate and ratio, 2018-2020 (in %, age group 15-24)

	Percentage of active population			Percentage of total population		
	2018	2019	2020	2018	2019	2020
EU	16,0	15,0	16,8	6,3	5,9	6,4
EA	16,8	15,6	17,3	6,7	6,3	6,7
Belgium	15,8	14,2	15,3	4,7	4,4	4,4
Germany ⁽¹⁾	6,2	5,8	7,4	3,1	3,0	3,9
Estonia	11,8	11,1	17,9	5,6	4,9	7,7
Ireland	13,8	12,5	15,3	6,4	5,9	6,7
Greece	39,9	35,2	35,0	9,3	7,9	7,4
Spain	34,3	32,5	38,3	11,3	10,7	11,4
France	20,8	19,5	20,2	7,8	7,2	7,2
Italy	32,2	29,2	29,4	8,4	7,6	7,0
Cyprus	20,2	16,6	18,2	7,9	6,4	7,0
Latvia	12,2	12,4	14,9	4,6	4,5	5,2
Lithuania	11,1	11,9	19,6	4,1	4,4	7,2
Luxembourg	14,2	17,0	23,2	4,7	5,9	7,5
Malta	9,1	9,3	10,7	5,1	5,2	5,8
Netherlands	7,2	6,7	9,1	4,9	4,7	6,3
Austria	9,4	8,5	10,5	5,3	4,8	5,9
Portugal	20,3	18,3	22,6	6,9	6,3	6,8
Slovenia	8,8	8,1	14,2	3,4	2,9	4,5
Slovakia	14,9	16,1	19,3	4,8	4,8	5,4
Finland	17,0	17,2	21,4	9,0	9,3	11,2

(¹) Break in time series since 2020, provisional data with low reliability for 2020

Source: [Eurostat](#)

However, the response by national authorities and European institutions has been swift. Member States have provided support notably to the groups and sectors that have been particularly affected. 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 people in vulnerable situations. The situation differs across countries, also due to the legacy of the past. Member States that already experienced serious socio-economic challenges before the pandemic are now even more exposed to vulnerabilities.

In April 2021, the euro area seasonally-adjusted unemployment rate was 8.0 %, down from 8.1 % in March 2021 and up from 7.3 % in April 2020. In the euro area, the unemployment rate for women decreased from 8.5 % in March 2021 to 8.4 % in April 2021 while the unemployment rate for men remained stable at 7.7 %. ([Eurostat](#)).

4. The Recovery and Resilience Facility

The Recovery and Resilience Facility (RRF)³ offers EU Member States grants up to EUR 312.5 billion (in 2018 prices, which corresponds to EUR 337.96 billion in current prices), and EUR 360 billion (in 2018 prices) is available in loans. In order to access financing from the Facility, Member States have or will prepare Recovery and Resilience Plans (RRPs) to be assessed by the Commission and adopted by the Council. These plans should address the objectives set out in the RRF Regulation and the challenges identified in the European Semester, particularly the 2019 and 2020 country-specific recommendations. For an overview of the main elements of the RRF, please see this [specific EGOV briefing](#).

On 10 June, Parliament adopted a [resolution](#). The Parliament notes it expects the Commission to “only approve plans that fully meet the provisions and targets of the RRF Regulation and to make no political concession that goes against the regulation and its spirit”, signals that “European added value does not materialise merely because the RRF is a European initiative” and reiterates previous concerns regarding access to information. The resolution also “Calls on the Commission to carefully assess and ensure that each national recovery and resilience plan effectively contributes to all six pillars referred to in Article 3 of the RRF Regulation in a comprehensive and balanced manner; (...) Stresses that plans must meet the regulatory requirements, including the 37 % and 20 % shares for the green and digital transitions respectively, (...); calls on the Commission to assess the qualitative and quantitative side of the measures proposed in order to ensure that they effectively meet both quantitative and qualitative targets, including for the implementation phase;”.

As of 17 June, 23 Member States have put forward their RRP, which are being analysed by the Commission. For an overview of these plans and procedures for adoption of the RRFs, please see this [specific EGOV briefing](#).

Out of these 23 submitted plans, the Commission adopted on [16 of June](#) the draft Council implementing decisions assessing the RRFs of Portugal and Spain, and a related set of documents⁴. On 17 June, the Commission put forward similar documents relating to the Greek and Danish RRFs; the Commission assessment for the Luxembourgish RRF is expected on 18 June (all Commission’s documents are available [here](#)). [Commission President](#) visited Member States’ capitals to present the Commission’s assessments.

To finance the RRF, the Commission will be issuing bonds on financial markets. The Commission expects to raise up to around €800 billion between now and end 2026 (in current prices), which would translate into borrowing volumes of on average roughly €150 billion per year. For the first time, the Commission will be using a “diversified funding strategy”, replacing the currently used “back-to-back”. See [here](#) and [EGOV briefing](#) for further details. On [15 June](#), the Commission launched the first RRF issuance, €20 billion via a ten-year bond due on 4 July 2031.

5. The 2021 European Semester Cycle

The European Semester streamlined

The RRF Regulation establishes strong links between the Facility and the European Semester for economic policy coordination⁵. These connections relate, notably to:

³ [Regulation 2021/241](#) adopted on 12 February 2021.

⁴ For each of the countries, the Commission published a draft Council Implementing Decision, together with an annex; a staff working document and a factsheet.

⁵ RRF macroeconomic conditionality also links the RRF to the Semester.

- The Semester being considered, together with the European Pillar of Social Rights, the framework at EU level to identify national reform priorities and monitor their implementation through the national RRFs;
- The CSRs, as set out in the context of the Semester, being one of the criteria on which to assess the eligibility of reforms and investments for financing under the RRF;
- The Semester being the framework where the Council discusses *"the state of the recovery, resilience and adjustment capacity in the Union"* on the basis of information obtained in the course of the Semester, and where Member States *"report on the progress made in the achievement of the recovery and resilience plan"*.

Therefore, the 2021 Semester cycle looks rather different than previous cycles⁶. The national RRFs become the main reference document for the Member States' forward-looking economic policy initiatives. Other Semester documents and steps also have a different configuration, including:

- Member States were encouraged to present their National Reform Programmes and RRFs in one single document⁷;
- Other than on fiscal matters, the Commission did not propose CSRs to Member States that present RRFs⁸;
- In 2021, Country Reports are replaced by the analytical documents assessing Member States' RRFs;
- Fiscal surveillance is limited, due to the [activation of the general escape clause](#) under the SGP;
- Euro area Member States are required to take into account the Euro Area Recommendation (EAR) when preparing their RRFs and the EAR will be taken into account when the Commission assesses such plans.

On 2 June, the Commission underlined in its [Communication](#) on *"Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy"* that *"Ensuring an effective policy coordination under the European Semester remains crucial to set the EU economy on a stronger growth path after the crisis. While this year's cycle was temporarily adapted to allow for the launch of the Facility, the European Semester continues to support the policy discussions among Member States, exchange of best practices and agreements on a common way forward."* and that *"The first year of implementation of the recovery and resilience plans will need to be monitored within the annual coordination framework under the European Semester."*. The Communication also announces that *"The 2022 Annual Sustainable Growth Strategy will set out the concrete steps on how the Semester governance framework is to be structured in 2022. On that basis the Commission will*

⁶ For further details, see specific [EGOV briefing](#) and four external papers commissioned by the European Parliament (summaries of which can be accessed [here](#)).

⁷ Eight Member States presented specific [National Reform Programmes](#) (Austria, Germany, Hungary, Luxembourg, Portugal, Romania, Spain and Sweden).

⁸ See Commission [2021 Spring package](#) of 2 June 2021.

engage in a dialogue with the European Parliament, the Council, Member States, social partners and all other relevant stakeholders."

Box 2: European Semester roadmap (June and July 2021)

(as reflected in the [Council website](#); 14 June)

- | | |
|-------------------------|--|
| 2 June 2021: | Spring package - Commission presents its 2021 fiscal guidance (recommendations for Council Recommendations delivering Opinions on the 2021 Stability and Convergence Programmes) and, where applicable, in-Depth Reviews under the MIP. |
| 11 June 2021: | EFC preparatory work on the 2021 fiscal guidance |
| 14-15 June 2021: | Employment, Social Policy, Health and Consumer Affairs Council European Semester: <ul style="list-style-type: none"> - Assessment of the implementation of the 2020 and relevant 2019 CSRs; Opinion of the Employment Committee and the Social Protection Committee: endorsement - Opinion of the Employment Committee and the Social Protection Committee on the Commission proposal for a Revised Social Scoreboard: endorsement |
| 18 June 2021: | Economic and Financial Affairs Council: <ul style="list-style-type: none"> - Economic Recovery in Europe - Implementation of the RRF: state of play / exchange of views - European Semester 2021: Council Recommendations delivering Opinions on the Stability and Convergence Programmes: adoption - Implementation of the SGP – Recommendation under the EDP: adoption |
| 22 June 2021: | General Affairs Council <ul style="list-style-type: none"> - Preparation of the June European Council: draft conclusions (section on economic recovery) |
| 24-25 June 2021: | European Council <ul style="list-style-type: none"> - Conclusions (section on economic recovery) - Draft Recommendation on the economic policy of the euro area: endorsement |
| 13 July 2021: | Economic and Financial Affairs Council <ul style="list-style-type: none"> - (poss.) Council Implementing Decisions under the RRF: adoption |

Fiscal surveillance

On 2 June 2021, the Commission raised in its [Communication](#) *"Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy"* the issue of when and under which conditions the SGP general escape clause should be deactivated⁹: *"Based on the Commission 2021 spring forecast, pre-crisis economic activity (end-2019) is projected to be reached around the fourth quarter of 2021 in the EU as a whole and the first quarter of 2022 in the euro area. On the basis of this forecast, the conditions for the continued application of the general escape clause in 2022 and its deactivation as of 2023 are met."*

Also on 2 June 2021, the Commission published its [recommendations for Council opinions](#) on the 2021 Stability and Convergence Programmes. These Council opinions, once adopted, will be this year's fiscal recommendations to Member States under the European Semester and the SGP. These recommendations include for each country, *inter alia*, a recommendation on either prudent or supportive fiscal policy in 2022 (including the impulse provided by the RRF, and preserve nationally financed investment) or a recommendation to use the supportive role of the RRF to finance additional investment in support of the recovery in 2022. Please see [separate EGOV briefing](#) for more information on the content of these proposed recommendations.

In its report *"Assessment of the fiscal stance appropriate for the euro area in 2022"* of June 2021 [the EFB](#) recommended a supportive fiscal stance for the euro area in 2022. *"Policies adopted or credibly announced*

⁹ Based on a request of the ECON Committee, four papers by external experts on *"How and When to deactivate the general escape clause of the SGP"* were published in 2020/2021. A [separate EGOV briefing](#) provides more detailed summaries of these papers.

by governments to date appear to achieve an appropriate degree of fiscal support. They should ensure the emergency measures are gradually phased out, while keeping expenditure above pre-crisis levels." Fiscal support should shift towards rolling out more targeted initiatives promoting a sustainable economic recovery and supporting the need to achieve the digital and green transitions. Furthermore, the EFB assesses in that report that with very low interest rates, an accommodative monetary stance can only be effective if government budgets act as the main transmission channel.

On 2 June, the Commission adopted also an [Excessive Deficit Procedure \(EDP\) report under Art. 126\(3\) TFEU](#) for Member States in the preventive arm of the SGP (note that all euro area Member States are currently in the preventive SGP arm) in view of assessing their compliance with the budget deficit and debt rules of the SGP.

Overall, taking into account all relevant factors as appropriate, the analysis suggests that the deficit criterion is not fulfilled by any euro area Member State. Likewise, overall, taking into account all relevant factors, the analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is fulfilled by Slovakia. The debt criterion is not fulfilled by 11 euro area Member States (Belgium, Germany, Greece, Spain, France, Italy, Cyprus, Austria, Portugal, Slovenia and Finland).

The Commission will reassess Member States' budgetary situation on the basis of the autumn 2021 Economic Forecast, and the 2022 Draft Budgetary Plans to be submitted by euro area Member States by 15 October 2021.

Box 3: G7 high-level agreement on global minimum tax

The G7 finance ministers published on 5 June 2021 a [Communiqué](#) announcing that they reached a high-level political agreement on a global tax reform, expressing strong support for the efforts underway through the G20/OECD Inclusive Framework to address the tax challenges arising from globalisation and the digitalisation of the economy and to adopt a global minimum tax. In particular, they agreed on the partial re-allocation of a share of the profits (at least 20% of profits exceeding a 10% margin) of certain multinational enterprises so that they can be taxed by market jurisdictions (that reallocation is called Pillar 1, in short), and on a global minimum tax of at least 15% on a country by country basis (Pillar 2). As part of the deal, all Digital Services Taxes and other similar measures will have to be abolished.

As a next step, the G7 finance ministers will seek a wider agreement among G20 Finance Ministers and Central Bank Governors at the next G20 meeting scheduled for 9-10 July.

On 9 June 2021, [MEPs debated](#) with Commissioner Valdis Dombrovskis and Portugal's Secretary of State Ana Paula Zacarias the topics of the G7 summit, several speaking of a "historic moment" in the fight against tax havens.

The Carbis Bay G7 [Summit Communiqué](#), published on 13 June 2021, finally endorsed the commitment made by the G7 on 5 June, calling it a significant step towards creating a fairer tax system and reversing a 40-year race to the bottom.

Further work is required on the technical details and practical implementation, which will presumably be a contentious issue. A preliminary assessment by [Reuters](#), for example, points to potentially uneven taxation effects on large US multinationals and political opposition.

Earlier, on 18 May, the Commission proposed its own new business tax agenda, which takes account of the progress made in the G20/OECD discussions on global tax reform. In that context, Commissioner Gentiloni explained at the [press conference](#) that the partial re-allocation of taxing rights, once agreed and translated into a multilateral convention, will be mandatory for participating countries. To ensure a consistent implementation in the EU, the Commission will propose a related Directive. Commissioner Gentiloni furthermore explained that the Commission will also propose a Directive for the implementation of the minimum effective taxation, though that will also have implications for other existing or already proposed legislation.

Surveillance of macro-economic imbalances

The Commission published the [Alert Mechanism Report 2021](#) in November 2020: this report analysed the macroeconomic situation of EU Member States and identified 12 countries that deserved and in-depth analysis in view of establishing whether they are at risk of macroeconomic imbalances.

In its [Communication](#) of 2 June on "*Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy*", the Commission presented a summary of its analysis and conclusions on the in-depth-review performed for the 12 Member States that were identified as at risk of macroeconomic imbalances in its Alert Mechanism report of November 2020 (please see this [note](#) on the Implementation of the Macroeconomic Imbalance Procedure). Such [in-depth reviews](#) were published on 2 June as well.

The Commission did not change the classification of such imbalances, namely:

- Cyprus, Greece and Italy continue to experience excessive imbalances,
- Ireland, Portugal, Spain, France, the Netherlands, Germany, Romania, Croatia and Sweden continue to experience macroeconomic imbalances.

Nevertheless, the Commission considered that the high uncertainty requires close monitoring of imbalances and of macroeconomic stability risks for all Member States, with a strong forward-looking perspective.

As for the characterisation of the imbalances in euro area Member States, the Commission notes that:

- Cyprus, Greece and Italy continue to experience excessive imbalances, linked to high government debts and high share of non-performing loans – despite continued and significant progress in this area in pre-pandemic years. Cyprus and Greece combine that with high external debt; Cyprus, also

with high private debt. Furthermore, in these three countries potential growth remains too low to help debt deleveraging.

- Ireland, Portugal and Spain are experiencing macroeconomic imbalances, due to the combination of high private, government and external debts.
- In France, the imbalances are driven by government and private debts, which continue to rise.
- Germany and the Netherlands record persistently large current account surpluses, linked to an excess of savings over investments, compounded by high private debt in the Netherlands.

6. Review of the EU economic governance framework

In accordance with the so-called “Six-pack” and “Two-pack” Regulations¹⁰, 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 agreed to launch an [own-initiative report](#) on the review: *The review of the macro-economic legislative framework for a better impact on Europe’s real economy and improved transparency of decision-making and democratic accountability* (Rapporteur Marques Margarida). Meetings with experts on different relevant topics took place during autumn 2020 and a draft report as well as amendments were tabled during spring 2021. The vote in ECON is planned for [21 June](#).

Following a request of the ECON Committee, expertise by academic experts has been published 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”.

For each of the two topics, three papers by academic experts have been published; a [separate EGOV briefing](#) provides summaries of them. Furthermore, the ECON Committee has requested four experts to write papers on “Euro area fiscal policies and capacity in post-pandemic times”; the first one, by C. Cottarelli, is available [here](#).

On 16 June, the EFB stated in its report “[Assessment of the fiscal stance appropriate for the euro area in 2022](#)” that agreeing on a revised economic governance framework before deactivating the general escape clause would contribute to a smooth normalisation of fiscal and monetary policies.

¹⁰ Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU, i.e. the set of legal acts comprising the provisions on the EU economic governance framework, published in 2011 and 2013, also known as “Six-pack” and “Two-pack”.

On [30 June](#), the Portuguese Council Presidency intends to hold a High-Level Conference on the Recovery. The event aims to contribute to reflection on the post-COVID-19 European economic recovery, to launch discussions on the future of economic governance in the EU and the need to rethink the European budgetary surveillance framework.

7. Banking Union: recent developments

Monitoring report on risk reduction measures (May 2021)

In preparation for the 21 May Eurogroup, the European Commission, the European Central Bank (ECB) and the Single Resolution Board (SRB) published the eight edition of the [monitoring report on risk reduction indicators](#). The report identifies the main developments in the Banking Union regarding non-performing loans (NPLs); minimum requirement for own funds and eligible liabilities (MREL); and banks' capital, liquidity and funding positions, as well as leverage. The assessment further distinguishes between the "legacy position" (the period up to Q4, 2019) and the "2020 position" which accounts for the COVID-19 pandemic.

The monitoring report also contains a description of selected EU banking legislative measures relevant for risk reduction and risk sharing, including those proposed by the Commission but not yet in force,¹¹ and *"a non-exhaustive overview of the key national measures adopted by Member States, highlighting those implemented over the past six months in order to reduce risks on the basis of the semester country surveillance reports. Initiatives are grouped into four main categories: legal reforms, supervisory actions, NPL initiatives and macro-prudential measures"*.

2020 position of risk indicators

In assessing the impact of the pandemic on risk indicators, the report covers the period until end-2020. It finds that **"Banks' capital, liquidity and leverage positions continued to improve in 2020, while NPLs on banks' balance sheets continued to decline. Improvements in ratios point towards the fact that the full impact of the COVID-19 pandemic had not been reflected in balance sheets of [Banking Union Significant Institutions] as of Q4 2020. This is in part due to the extraordinary policy measures taken in response to the COVID-19 pandemic ... Nearly half of all loans which had at one point benefited from EBA-compliant moratoria or other COVID-19-related measures were no longer covered by these measures as of Q4 2020 (compared to 8.3% in Q2 2020)"** (own emphasis). In its written [submission](#) ahead of the May Eurogroup meeting, ECB Banking Supervision elaborated on these credit risk indicators, and supervisory action in this regard.

Looking at Q2, 2020 data, the monitoring report further finds that the average MREL shortfall has decreased as compared to Q4, 2019 largely due to an increase in the stock of eligible instruments (see Figure 3 for an overview of main indicators).

¹¹ Namely, on addressing NPLs: Proposal for a [directive on credit servicers, credit purchasers and the recovery of collateral](#) (negotiations ongoing); [Benchmarking of national loan enforcement \(including insolvency\) systems from a bank creditor perspective](#). Regarding Sovereign bond-backed securities: An enabling framework for securities that allows for pooling and possibly tranching of sovereign bonds from different Member States (see [here](#) and [here](#)). On EDIS: [Proposal for a regulation to establish a European-wide deposit insurance scheme](#).

Figure 3: Overview of main developments**Overview of main developments***

NPLs	<ul style="list-style-type: none"> • Legacy position. Since Q4 2014, the average gross NPL ratio decreased by 4.6 percentage points (pp) to 3.2% in Q4 2019. During the same period, the volume of gross NPLs decreased from approximately €1trn in Q4 2014 to €506bn. • 2020 position. The average gross NPL ratio decreased further in H2 2020, reaching 2.6% in Q4 2020. The impact of the COVID-19 pandemic is only partially reflected in 2020 figures, in particular in view of COVID-19 measures as well as the extensive fiscal support to borrowers.
MREL	<ul style="list-style-type: none"> • Legacy position. The average MREL shortfall at Q4 2019 against the 2024 targets under BRRD II/SRMR II was 0.5% TREA or €35.0 bn (1.2% TREA or €85.1 bn when the combined buffer requirement (CBR) is considered). The average MREL shortfall against the 2022 intermediate target is 0.04% TREA or €3.0 bn (0.3% TREA or €23.3 bn when the CBR is considered). • 2020 position. The average MREL shortfall against 2024 targets under BRRD II/SRMR II decreased to 0.4% TREA or €30.3 bn (0.9% TREA or €62.2 bn considering the CBR) in Q2 2020 compared with Q4 2019 (above). The average MREL shortfall against the 2022 intermediate target is 0.03% TREA or €2.0 bn (0.2% TREA or €11.5 bn with CBR considered).
Capital position	<ul style="list-style-type: none"> • Legacy position. The average Common Equity Tier 1 (CET1) ratio improved by 3.7 pp to 14.7% between Q4 2014 and Q4 2019. • 2020 position. In the course of 2020, the weighted average CET1 increased by 0.6 pp to 15.2%.
Leverage ratio	<ul style="list-style-type: none"> • Legacy position. Banks have, on average, increased their leverage ratio by 1.6 pp to 5.6% between Q4 2014 and Q4 2019. • 2020 position. In the course of 2020, the ratio increased by 23 basis points to 5.8%.
Liquidity and Net Stable Funding position	<ul style="list-style-type: none"> • Legacy position. The liquidity and funding position of banks, as measured by the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) improved between Q4 2014 and Q4 2019 to 145.9% and 113.6% in Q4 2019 respectively. Both the LCR and the NSFR remained consistently above the 100% minimum requirements. • 2020 position. The LCR and the NSFR improved by 25.8 pp to 171.8% and by 8.3 pp to 121.9% in Q4 2020 respectively, also as a consequence of policy measures taken as a result of the COVID-19 pandemic.

*Figures may not balance exactly due to the impact of rounding.

Source: [Commission, ECB, SRB \(2021\)](#)

The authors of the report do warn, however, that “the precise impact of the COVID19 pandemic on credit quality as well as other indicators continues to be difficult to predict and cannot be fully quantified at this point in time”.

Given these uncertainties, the ECON Committee commissioned a number of external papers addressing firstly, possible NPL developments and the differences, if any, to previous crises; secondly, the drivers of the performance of asset management companies in view of resolving NPLs; and lastly, questioning when and how to unwind COVID support measures to the banking system. An overview of these papers can be found [here](#) and [here](#).

Pandemic related measures

In order to contextualise the 2020 position, the monitoring report gives an overview of the various COVID-19 policy measures taken by regulators, supervisors and national competent authorities in order to mitigate the pandemic shock (complementing measures taken by monetary and fiscal authorities).

The ECB adopted a number of supervisory measures aimed at safeguarding the stability of the banking system, by inter alia, [relaxing](#) the capital buffer requirements and allowing 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. Moreover, 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.

These efforts were complemented by the CRR “quick fix” package, including the Commission’s [Interpretative Communication](#) on the EU’s accounting and prudential frameworks, and [legislation](#) adopted on 24 June which included exceptional temporary measures to allow banks to continue to lend despite the pandemic crisis.

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](#) five 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

As outlined in the Eurogroup [work programme](#) until June 2021, completing the Banking Union is a priority for the Eurogroup (as well as the current Council [presidency](#)). This entailed finalising the agreement on the European Stability Mechanism (ESM) Treaty and early introduction of the common backstop to the Single Resolution Fund (SRF);¹² making progress on the issue of liquidity in resolution;¹³ and reform of the crisis management framework.¹⁴

Regarding the SRF backstop, the SRB indicated in its May [bi-annual reporting note](#) to the Eurogroup that it is implementing the agreement on early introduction of the SRF, and is preparing, inter alia, the Backstop Facility Agreement, the Parallel Facility Agreement, and the termination of the Loan Facility Agreements currently in place. Moreover, the SRB developed a collateral policy for the purposes of liquidity support if the common backstop is used and is working with the ESM to conclude the methodology for assessing the SRB repayment capacity of the borrowed amounts under the ESM credit line.

Looking ahead, the Eurogroup’s [work programme](#) for the second half of 2021 notes that “Under the mandate received by the [Eurosummit](#) of December 2020, the Eurogroup in an inclusive format is working towards the preparation of a stepwise and time-bound work plan on all outstanding elements needed to complete the Banking Union and stands ready to continue the work on a consensual basis and in a holistic manner on completing the Banking Union”. Recent [reports](#) in the press indicate that any further negotiations on EDIS will be postponed, following an impasse amongst Member States as to the way forward. The PEG is said to be preparing a letter for the next Leaders meeting on [24-25 June](#), explaining the key discussion points and next steps in this regard. However, this issue is still marked as being on the [draft agenda](#) for the [June 17 meeting](#) of the Eurogroup. No other inputs to the meeting are publicly available as of yet; after the meeting the [President of the Eurogroup](#) announced that work would be postponed to later in the year.

This work will build on earlier efforts by the High-Level Working Group on EDIS (HLWG), [setup](#) 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

¹² See EGOV briefings [here](#) and [here](#) for more information on the backstop.

¹³ See EGOV thematic briefing [here](#).

¹⁴ See details of Commission reviews [here](#), [here](#) and [here](#), and EGOV briefing [here](#).

2020 due to the COVID-19 crisis. This work is in parallel to the Council Ad Hoc Working Party on the Strengthening of the Banking Union (latest available report, from November 2020, is available [here](#)).

Box 4: Making progress on the Capital Markets Union (CMU)

Strengthening the CMU remains a [priority](#) for the Eurogroup, with the March 2021 Euro Summit reiterating that *"making progress towards a true Capital Markets Union remains essential to support the financing of the economy, complement the Banking Union, and strengthen market-based adjustment mechanisms in the euro area"*.

In September 2020, the Commission adopted a [CMU Action Plan](#), which proposes 16 actions with three key objectives: supporting a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies; making the EU an even safer place for individuals to save and invest long-term; and integrating national capital markets into a genuine single market. In its [December 2020 Conclusions](#) on the Commission's CMU Action Plan, the Council welcomes these policy initiatives, while also noting the need for developing clear and adequate indicators, so as to measure progress on CMU.

On 9 June, the Commission published a [Staff Working Document](#) on a toolkit of indicators for monitoring progress on CMU, with regard to the three aforementioned objectives of the Action Plan. While the Commission notes the time lag between policy adoption and visibility of its impact in statistics, it argues that *"by providing a framework for the analysis of capital markets developments, the indicators can help identify the areas where further policy intervention is needed. The CMU indicators can be a useful starting point for more detailed quantitative structural analysis."* Nevertheless, it finds that *"For most indicators, over the examined period, the Member States with less developed markets have also been the ones where the situation has improved the most, demonstrating the well-established 'catching up' effect"*, but acknowledges some exceptions to this trend (regarding venture capital markets and the role of insurance corporations and pension funds in channelling households' long-term savings into capital markets).

Annex 1: Gross domestic product in euro area Member States

	<u>Eurostat*</u> (06/2021)						<u>EC</u> (05/2021)			<u>IMF</u> (04/2021)			<u>ECB</u> (12/2020)			<u>OECD</u> (05/2021)		
	2018	2019	2020	2020 Q3	2020 Q4	2021 Q1	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
BE	1.8	1.8	-6.3	-4.2	-5.0	-0.5	4.5	3.7		4.0	3.1	2.1	3.5	3.1	2.3	4.7	3.5	
DE	1.3	0.6	-4.8	-3.7	-2.3	-3.4	3.4	4.1		3.6	3.4	1.6	3.0	4.5	1.8	3.3	4.4	
EE	4.4	5.0	-2.9	-2.5	-1.2	5.4	2.8	5.0		3.4	4.2	3.5	2.9	4.2	2.6	2.9	5.0	
IE	8.5	5.6	3.4	8.7	1.5	11.8	4.6	5.0		4.2	4.8	3.7	3.1	3.9	3.8	4.2	5.1	
EL	1.6	1.9	-8.2	-9.4	-5.9	-1.4	4.1	6.0		3.8	5.0	2.4	4.2	4.8	3.7	3.8	5.0	
ES	2.4	2.0	-10.8	-8.6	-8.9	-4.6	5.9	6.8		6.4	4.7	2.8	6.8	4.2	1.7	5.9	6.3	
FR	1.9	1.8	-7.9	-4.0	-3.7	1.5	5.7	4.2		5.8	4.2	1.7	4.8	5.0	2.3	5.8	4.0	
IT	0.9	0.3	-8.9	-5.2	-6.1	0.1	4.2	4.4		4.2	3.6	1.6	3.5	3.8	2.3	4.5	4.4	
CY	5.2	3.1	-5.1	-4.3	-4.5	-1.6	3.1	3.8		3.0	3.9	3.1	4.1	3.4	2.7	-	-	
LV	4.0	2.0	-3.6	-2.8	-1.5	-1.3	3.5	6.0		3.9	5.2	3.9	2.8	5.3	3.7	3.2	5.6	
LT	3.9	4.3	-0.9	0.1	-1.2	1.2	2.9	3.9		3.2	3.2	3.0	1.9	4.0	2.7	3.7	4.0	
LU	3.1	2.3	-1.3	-0.2	1.6	5.0	4.5	3.3		4.1	3.6	3.1	4.7	5.0	3.8	4.8	2.8	
MT	5.2	5.5	-7.8	-9.9	-7.8	-1.8	4.6	6.1		4.7	5.6	4.6	5.9	4.4	4.2	-	-	
NL	2.4	1.7	-3.7	-2.4	-2.8	-2.8	2.3	3.6		3.5	3.0	1.8	2.9	2.9	1.9	2.7	3.7	
AT	2.6	1.4	-6.3	-3.2	-5.6	-5.5	3.4	4.3		3.5	4.0	2.3	3.0	4.0	2.2	3.4	4.2	
PT	2.8	2.5	-7.6	-5.5	-6.2	-5.7	3.9	5.1		3.9	4.8	2.5	3.9	4.5	2.4	3.7	4.9	
SI	4.4	3.2	-5.5	-2.4	-4.5	1.6	4.9	5.1		3.7	4.5	3.6	3.1	4.5	3.1	3.5	4.6	
SK	3.7	2.5	-4.8	-2.5	-2.1	0.2	4.8	5.2		4.7	4.5	3.8	5.6	4.8	3.7	4.2	5.2	
FI	1.3	1.3	-2.8	-2.7	-0.7	-1.5	2.7	2.8		2.3	2.5	1.5	2.2	2.5	1.5	2.6	2.7	
EA	1.9	1.3	-6.5	-4.1	-4.1	-1.3	4.3	4.4		4.4	3.8	1.9	3.9	4.2	2.1	4.3	4.4	
EU	2.1	1.6	-6.1	-4.0	-3.9	-1.3	4.2	4.4		4.4	3.9	2.3	-	-	-	-	-	

* Note: Year-on-year GDP growth is provided for [2018, 2019 and 2020](#), while quarter-on-quarter changes are provided for [2020 Q3, Q4 and 2021 Q1](#).

Annex 2: Inflation (annual rate of change) in euro area Member States

	<u>Eurostat*</u> (06/2021)						<u>EC</u> (05/2021)			<u>IMF</u> (04/2021)			<u>ECB</u> (12/2020)			<u>OECD</u> (05/2021)		
	2018	2019	2020	2020 Q3	2020 Q4	2021 Q1	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
BE	2.3	1.2	0.4	0.8	0.5	0.9	1.8	1.5		1.7	1.9	1.8	1.7	1.9	1.9	1.5	1.2	
DE	1.9	1.4	0.4	-0.4	0.6	0.5	2.4	1.4		2.2	1.1	1.5	1.8	1.3	1.6	2.6	1.6	
EE	3.4	2.3	-0.6	-0.1	0.0	-0.3	1.6	2.2		1.8	2.5	2.1	1.3	2.0	2.0	1.9	2.4	
IE	0.7	0.9	-0.5	-0.4	0.2	0.9	0.9	1.3		1.6	1.9	2.0	-0.7	0.3	0.9	0.8	1.6	
EL	0.8	0.5	-1.3	1.5	0.2	1.0	-0.2	0.6		0.2	0.8	1.0	-0.1	0.6	0.9	0.2	1.2	
ES	1.7	0.8	-0.3	0.4	0.2	1.9	1.4	1.1		1.0	1.3	1.5	0.6	1.2	1.3	1.6	1.1	
FR	2.1	1.3	0.5	-0.6	0.2	0.7	1.4	1.1		1.1	1.2	1.3	0.5	0.8	1.0	1.4	0.8	
IT	1.2	0.6	-0.1	0.9	0.2	1.8	1.3	1.1		0.8	0.9	1.0	0.5	0.9	1.2	1.3	1.0	
CY	0.8	0.5	-1.1	-0.8	-0.4	1.4	1.7	1.1		0.5	0.8	1.2	0.5	0.9	1.4	-	-	
LV	2.6	2.7	0.1	-0.1	0.0	0.8	1.7	2.0		2.1	2.2	1.9	1.1	1.6	1.7	1.2	1.7	
LT	2.5	2.2	1.1	0.3	0.0	1.0	1.9	1.9		1.5	1.9	2.0	1.1	1.8	1.8	1.8	1.8	
LU	2.0	1.6	0.0	-0.2	0.4	1.8	2.1	1.6		0.9	1.8	1.9	1.9	1.7	1.7	2.2	1.3	
MT	1.7	1.5	0.8	-1.3	-0.3	1.0	1.2	1.5		1.1	1.4	1.5	0.9	1.4	1.6	-	-	
NL	1.6	2.7	1.1	-0.4	0.5	0.3	1.6	1.4		1.4	1.5	1.6	1.5	1.5	1.6	1.8	1.5	
AT	2.1	1.5	1.4	0.8	0.6	1.2	1.8	1.6		1.6	1.8	2.0	1.4	1.7	1.7	2.0	1.9	
PT	1.2	0.3	-0.1	0.8	-0.1	1.5	0.9	1.1		0.9	1.2	1.3	0.3	0.9	1.1	1.0	1.0	
SI	1.9	1.7	-0.3	-0.2	-0.1	0.6	0.8	1.7		0.8	1.5	1.6	0.9	1.3	1.6	0.8	1.1	
SK	2.5	2.8	2.0	0.0	-0.1	0.6	1.5	1.9		1.2	1.9	2.0	0.6	1.8	1.9	1.1	1.2	
FI	1.2	1.1	0.4	0.0	0.2	0.3	1.2	1.2		1.4	1.5	1.6	0.9	1.2	1.5	1.8	1.5	
EA	1.8	1.2	0.3	0.1	0.3	0.9	1.7	1.3		1.4	1.2	1.4	1.0	1.1	1.4	1.8	1.3	
EU	1.9	1.5	0.7	0.0	0.3	0.9	1.9	1.5		1.6	1.4	1.6	-	-	-	-	-	

* Note: Average annual rate of HICP change is provided for [2018, 2019 and 2020](#), while information on monthly rate of HICP change for the last month of the quarter is provided for [2020 Q4 and 2021 Q1](#).

ANNEX 3: 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
	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	European Parliament and Council Regulation issued under Art. 175 TFEU	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

	All EU Members States			Non-Euro Area Member States only	Euro Area Member States only
	Recovery and Resilience Facility	SURE	EFSM	Balance of Payments Facility	ESM lending tools
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 and targets	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

Disclaimer and copyright. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2021.

Contact: egov@ep.europa.eu

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