IN-DEPTH ANALYSIS

Economic Dialogue with the President of the Eurogroup

ECON on 2 February 2022

Paschal Donohoe is attending his third Economic Dialogue in the ECON Committee since being elected as President of the Eurogroup in July 2020. His previous Economic Dialogue took place on 21 June 2021.

This briefing covers the following issues: the Eurogroup work programme (Section 1); Economic situation and developments (Section 2); Euro Area Recommendation (Section 3); European Semester Cycle (Section 4); Recovery and Resilience Facility (Section 5); and Completing EMU governance (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

The Eurogroup (EG) adopted on 6 December 2021 its work programme until July 2022. The EG will be focusing on the following priority policy areas:

Economic and fiscal policies to support the recovery and long-term growth: notably by monitoring of the macroeconomic situation, including fiscal and price developments and coordination of policies to prevent and correct macroeconomic imbalances. The EG plans to discuss, notably, housing markets developments. It will continue to hold thematic discussions with the aim of reaching a shared assessment of the structural challenges the euro area economy is facing after the pandemic, as well as the lessons learnt from Europe's comprehensive economic policy response.

Given the importance of the economic governance framework for the smooth functioning of the Economic and Monetary Union (EMU), the EG, in cooperation with the Council Presidency and in the appropriate format, will discuss euro area relevant aspects with a view to build consensus and provide input to the Commission.

According to the programme, the euro area recommendation will allow the Eurogroup to support a coherent policy mix across a broad range of economic and fiscal policies.

Strengthening the banking union: under a mandate received by the Euro Summit of December 2020, the EG 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 will continue the work on a consensual basis.

The euro as a digital currency: topics for discussion will include: (i) trade-offs in the design of a digital euro between privacy and other EU policy objectives; (ii) potential impacts of a digital euro on the financial system and the use of cash; and, (iii) business models of public and private participants in the digital euro ecosystem.

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The international role of the euro: it will seek to foster high-level policy debates and exchange of views with international partners to deepen the relations in the economic and financial spheres, inviting external speakers to enrich and bring additional perspectives to the discussions. It will also continue to monitor the plans and actions of non-euro area Member States' relating to the introduction of the euro and will offer its support and guidance, as necessary.

Finally, according to the programme the Eurogroup is committed to continue implementing its transparency policy and to clear communication with citizens.

At the last Eurogroup meeting on 17 January, ministers discussed the following subjects: economic adjustment and resilience in terms of recent performance of the euro area compared to international peers, based on input from the European Commission and the Chief Economist of the OECD (see blogpost here); the solvency situation of the corporate sector and potential measures to facilitate the corporate restructuring and economic adjustment in the euro area in the recovery after the global COVID-19 pandemic (see background note by the Commission); the draft recommendation on the economic policy of the euro area for 2022; the euro area fiscal framework and arrangements for financial assistance and post-programme surveillance (see background note); the state of play on the strengthening of the banking union, in particular the way forward to finalise a consensual, stepwise and time-bound work plan on all outstanding elements.

The provisonal draft agenda for the EG next meeting on 25 February (in connection with the Informal ECOFIN) includes discussions on macroeconomic developments, including inflation, and policy prospects in the euro area; euro area dimension of the macroeconomic imbalances procedure; (poss.) the euro as a digital currency; and in in inclusive format (poss.) Banking Union - state of play.

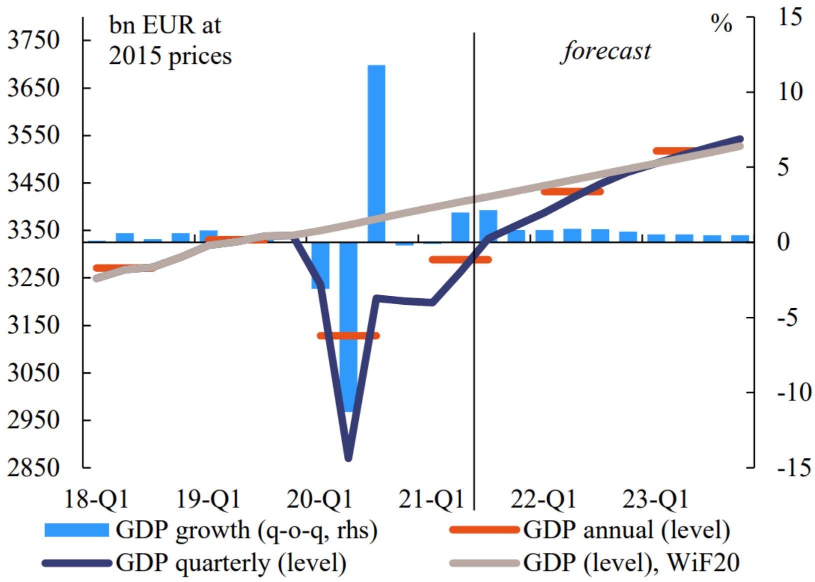
2 Latest economic developments and outlook

2.1 Economic growth and inflation

According to the latest European Commission Autumn 2021 Economic Forecast published in November 2021, *"Growth rates for the euro area are projected to be identical to those for the EU [5.0% and 4.3%] in 2021 and 2022, and 2.4% in 2023. This outlook depends heavily on two factors: the evolution of the COVID-19 pandemic and the pace at which supply adjusts to the rapid turnaround in demand following the re-opening of the economy"*.

A the time of the forecast, the Commission was projecting that *"In early 2023, real GDP in the EU is expected to converge to the level expected before the pandemic hit, based on an extrapolation of the trend in the Winter 2020 Interim Forecast"* (see Figure 1 below).

Figure 1: Real GDP growth path in the EU



Note: WiF20 for 2022 and 2023 extrapolated from quarterly growth over 2021.

Source: *European Commission.*

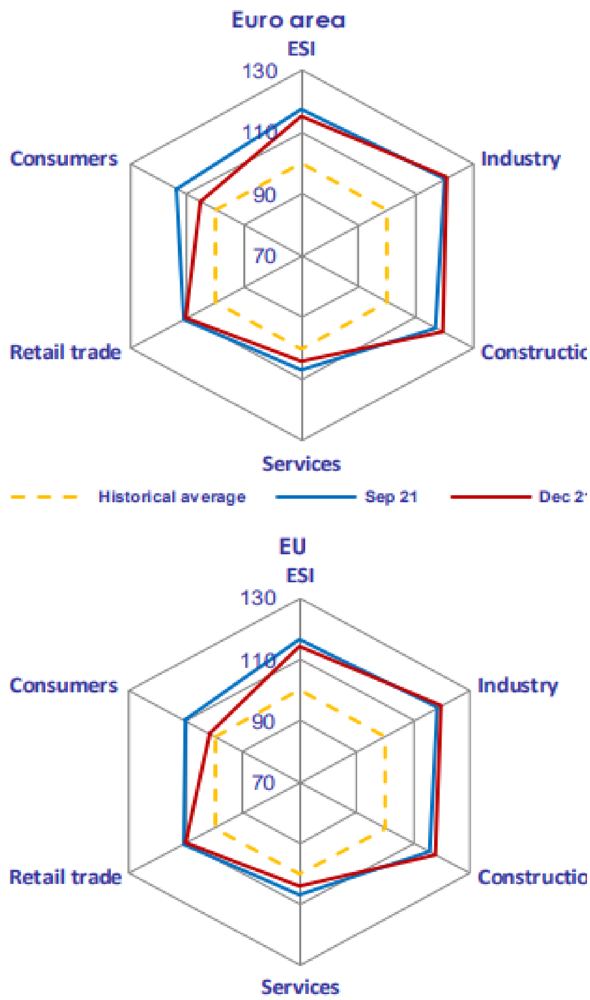
Nevertheless, the second half of 2021 brought to economic reality a number of surprises. On the negative side, the continued supply disruptions, hindering manufacturing and a resurgence in COVID cases and mobility restrictions, are highlighted. On the positive side, signs of a global turnaround in November - international trade picked up as well as services activity and industrial production data were better than anticipated, even though these developments only partially offset earlier declines, were noted. These developments afftected GDP growth path.

Also, despite recent changes[1], the level of confidence portrayed by sentiment indicators is generally high when compared to long-term averages, especially in industry, construction and retail trade. More recent projections (the ECB and the IMF projections published in December and in January respectively) estimate that the euro area GDP should grow by around 5.1%-5.2% in 2021 and by 3.9%-4.2% in 2022 and 2.5%-2.9% in 2023 (see EGOV briefing for more details).

[1] *"Economic Sentiment Indicator (ESI) ... in the fourth quarter of 2021 saw a weakening in sentiment ... The Employment Expectations Indicator (EEI) improved over the quarter for the fourth consecutive time ... EU/EA confidence weakened markedly in services and among consumers, while it booked a moderate increase in construction. Confidence in industry and retail trade stayed virtually unchanged".*

Given the still high uncertainty of the future development of pandemic evolution, the risk to the estimated projections are tilted to the downside. The emergence of new COVID variants and a prolonged health crisis could once again lead to reintroduction of restrictions, which would in turn induce renewed economic disruptions and stall economic recovery. Such prolonged health crisis could further result in economic scarring and increased insolvencies. Additionally, supply chain disruptions and localised wage pressures (see Section 2.4) pose another downside risk to the economic growth, which in turn can result in further supply constraints that become even more persistent and above-productivity wage increases are passed on to consumer prices, further fueling increasing inflation. Based on the Commission European Business Cycle Indicators, capacity utilisation in manufacturing (81.6% in the EU and 82.1% in the EA) and services (89.2% in the EU and 88.9% in the EA) are above its long term averages (80.5% for both regions in manufacturing and 88.9% in the EU and 88.6% in the EA in services, see ***Figure 2***). Also, *"The share of industry managers pointing to the shortage of labour force and material and/or equipment as factors limiting production reached the highest values on record in the October survey"*.

Figure 2: Economic Sentiment Indicators radar charts



Source: European Commission.

Furthermore, as advanced economies will start lifting policy rates, *"risks to financial stability and ... capital flows, currencies, and fiscal positions—especially with debt levels having increased significantly in the past two years—may emerge. Other global risks may crystallize as geopolitical tensions remain high, and the ongoing climate emergency means that the probability of major natural disasters remains elevated"*.

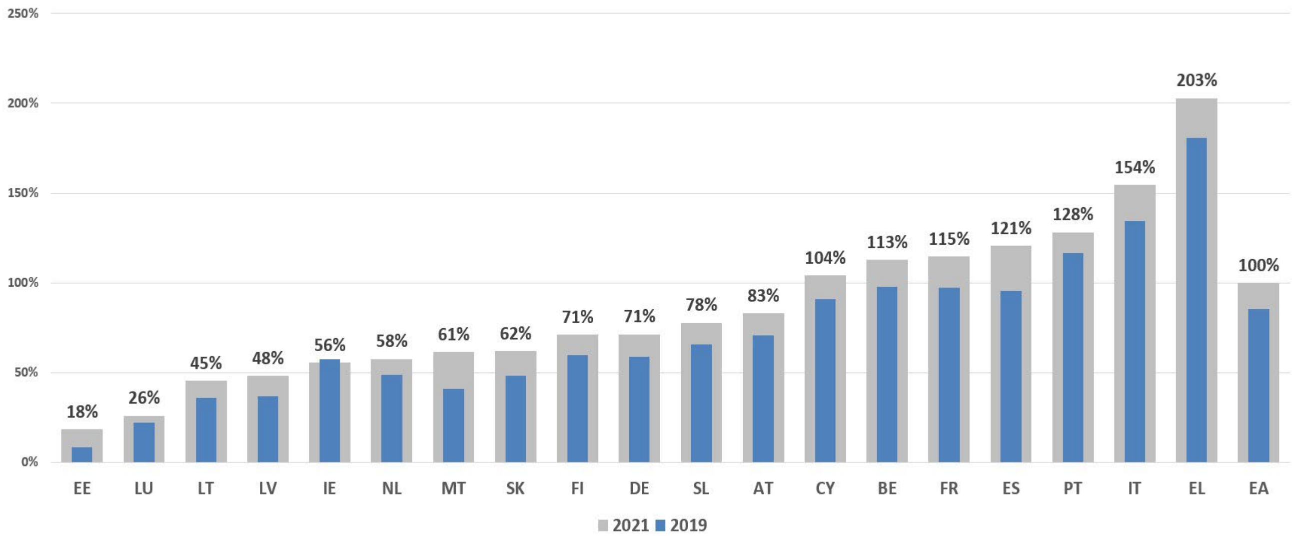
2.2 Public Finances

According to the Commission's assessment of the 2022 Draft Budgetary Plans (DBPs), Member States are unwinding the temporary emergency measures and increasingly focusing support measures on sustaining the recovery. Together with the operation of the automatic stabilisers, this helps the aggregate euro-area fiscal position, which is set to improve significantly in 2022. The DBPs point to an aggregate headline deficit of 4.1% of GDP and a debt-to-GDP ratio of around 96% in 2022, broadly in line with the Commission 2021 autumn forecast. Materialisation of risks could aggravate economic and fiscal outcomes in 2022 compared to the estimates in the DBPs.

According to the assessment, Member States have taken sizeable fiscal measures in response to the pandemic and in support of the recovery (5.2% of GDP in 2021 and 2.8% of GDP in 2022). Temporary emergency measures are projected to be mostly phased out in 2022 (3.7% of GDP in 2021, 0.4% of GDP in 2022). By contrast, recovery support measures are set to rise (1.5% of GDP in 2021, 2.3% of GDP in 2022), which is increasingly related to measures financed by the EU. In 2022, RRF non-repayable financial support or "grants" will fund 24% of total recovery support measures. Member States also provided ample liquidity support to households and businesses in the form of guarantees or suspension of tax and social security contributions.

Between 2019 and 2021, significant debt increases, measured by the debt to GDP ratio, can be noticed in the euro area Member States, see Figure 3 below.

Figure 3: Public debt (as % GDP) in euro area Member States in 2019 and 2021



Source: [*Commission Autumn 2021 Economic Forecast*](#).

In 2022, the euro area public debt to GDP ratio is projected to decrease, from 100.0% in 2021, to 97.0%.

For a comparison of data on some key indicators included in the 2022 DBPs and the Autumn 2021 Economic Forecast, please see separate EGOV document, which shows that some Member States have in general more optimistic figures than the Commission for the years 2021 and 2022, notably Ireland, Greece, Spain, Italy, Malta and Portugal. On the other hand, a number of countries has in general more pessimistic forecast figures for these years than the Commission, notably Germany, the Baltic countries, Slovenia and Slovakia. The highest divergences between Member States' and Commission forecasts occur regarding the debt and the structural balance.

Box 1: IMF's latest recommendations for the euro area

In the context of Art. IV consultation, the IMF stated: *"Looking ahead, coordinating fiscal, monetary, and financial sector policy normalization in the face of uncertain pandemic dynamics and legacies will be a challenge. Policies should remain accommodative but become increasingly targeted, with a focus on mitigating potential rises in inequality and poverty. Fiscal policy space should be rebuilt once the expansion is firmly underway, but credible medium-term consolidation plans should be announced now. Recent inflation readings have surprised on the upside, but much of the increase still appears transitory, with large second-round effects unlikely. Hence, monetary policy should continue to support the recovery. Structural reforms and high-impact investment, including in climate-friendly infrastructure and digitalization, remain crucial to enhancing resilience and boosting potential growth."*

For more data, see separate EGOV briefing "Public finances in Euro Area Member States: Selected indicators".

As part of its regular work, the EG continued to follow up on implementation of the financial assistance programmes of Greece, Spain, Cyprus, Portugal and Ireland. At its December 2021 meeting, ministers discussed the twelfth enhanced surveillance report on Greece and agreed that the necessary conditions were in place to release the sixth tranche of policy-contingent debt measures. The EG issued a statement.

At the same meeting, the Commission and the European Central Bank (ECB) informed ministers on the main findings of the post-programme surveillance reports on Cyprus, Portugal, Ireland and Spain. The PEG concluded that "*These reports were overall positive and confirm that strong economic recoveries were underway in 2021, supported by vaccine rollout, European-level policies and the measures taken in each country to decisively address the pandemic situation and its economic consequences*". For further information, see a specific EGOV briefing.

Box 2: The Fiscal-Monetary Mix

As part of its strategy review, the ECB published in September 2021 a specific paper on monetary-fiscal policy interactions in the euro area, a topic also covered in several other papers that were prepared for the Monetary Dialogue in November 2020.

The starting point of the ECB's analysis is the observation that there is renewed attention on the question of how monetary and fiscal policy should best interact, in particular in an environment of structurally low interest rates and persistent downside risks to price stability. The financial crisis and subsequent sovereign debt crisis exposed weaknesses in the EMU framework that led to a "*rather unbalanced interaction between fiscal and monetary policies*", as according to the ECB macroeconomic stabilisation was largely left to monetary policy. Taking a forward-looking view of policy challenges, the ECB concludes for the pandemic period that fiscal policy actions should remain at centre stage and monetary policy actions just be supportive, and it concludes for a post-pandemic period that the goals of monetary and fiscal policy continue to be naturally aligned – as long as inflation remains below the aim. At the time, an extrapolation based on survey-based market expectations that is referred to in the ECB paper suggests that inflation rates would only very gradually converge to 2%, implying an undershooting of the ECB's price stability objective for an extended period. There is, however, a caveat: long-term scenarios based on market and survey-based expectations should be regarded with caution, as "[...] *the underlying macroeconomic assumptions may change much more rapidly than currently expected*". The ECB paper, in any case, has a dedicated section that analyses the implications of a potential increase in the interest rate-growth differential for government debt dynamics. Given the very different initial fiscal positions, and differentiating between effects on countries with higher or lower levels of public debt, the ECB's simulations suggest "*that the central bank can tighten monetary policy in a high inflation scenario without endangering debt sustainability in the high-debt group under the premise of a return to prudent fiscal policy in the medium to long run. Otherwise, the unfavourable impact of the large post-pandemic primary deficit on debt dynamics would outweigh the favourable impact of the negative interest-growth differential*".

In a similar vein, researchers at the Banque de France recently stated in a blog that both monetary and fiscal expansions were needed in the euro area to sustain demand and inflation, mitigate the costs of the pandemic crisis and ensure a robust recovery, while cautioning that "*possible conflicts of interest between fiscal and monetary policies could arise if inflation rises over the medium-term beyond the current "inflation hump*".

2.3 Macroeconomic Imbalances

The 2022 Alert Mechanism Report (AMR), published in November 2021 by the Commission, presents the analysis of the macroeconomic situation and of imbalance, as well as future challenges, in the EU, in the euro area and in each Member State. The Commission notes that before the pandemic, most of the imbalances highlighted in previous years were undergoing a process of correction: excessive large current account deficits or strong credit growth had been reduced, and the economic recovery following the financial crisis was also supporting the correction of stock imbalances, namely private, public and external debts. Progress was visible in the financial sector as well, with strengthened banks' balance sheets. The post-2013 recovery had also brought some risks in a few countries, especially related to house prices and cost competitiveness developments (mainly in terms of labour cost). The pandemic crisis interrupted most of the positive developments and is aggravating a number of existing imbalances, with new emerging risks. Most notably:

- Both government and private debt-to-GDP ratios increased. Government debt-to-GDP ratios have increased more in the countries heavily affected by the recession, principally due to their tourism sectors.
- External accounts worsened in countries dependent on cross-border tourism revenues. Some of the large current account surpluses declined mildly in 2020, bringing the current account for the euro area as a whole in line with fundamentals, but the trend is reversing.
- House prices, which had already been buoyant, accelerated further and constitute a risk in several countries, in particular where they are accompanied by a significant increase in households' mortgage debt. Various EU countries display risks of overvaluation.
- Debt repayment by the private sector (households and companies) might become difficult, thereby affecting banks' balance sheets and profitability. The banking sector has maintained strong capital ratios, but profitability weakened in 2020 and the full impact of the crisis on bank balance sheets may only be visible with a delay. Potential feedback loops between banks, sovereigns and the corporate sector should be closely monitored.
- As the recovery takes hold, labour shortages and cost pressures are emerging in some countries, and substantial wage increases are foreseen in a number of countries, with inflationary risks.

The AMR devotes specific attention to developments in the euro area. The Commission notes that, while the impact of the pandemic has been mitigated by the appropriated policies, the pandemic exacerbated divergences among euro area countries. The current account for the area as a whole is still high, at 3.1% of GDP in 2021; it has temporarily declined to a level close to its fundamentals, but is projected to return to pre-crisis levels, above fundamentals (3.2% and 3.4% in 2022 and 2023, respectively). The large external balance shows that there is room to sustain the recovery (at the euro area aggregate level) and to contribute to a faster reduction of imbalances, especially given the limited room for additional monetary support to sustain demand. The figures at Member State level vary very significantly, but in view of the interconnections among euro area economies, an appropriate combination of macroeconomic policies across Member States is needed in order to sustain the recovery, while correcting imbalances and addressing emerging risks.

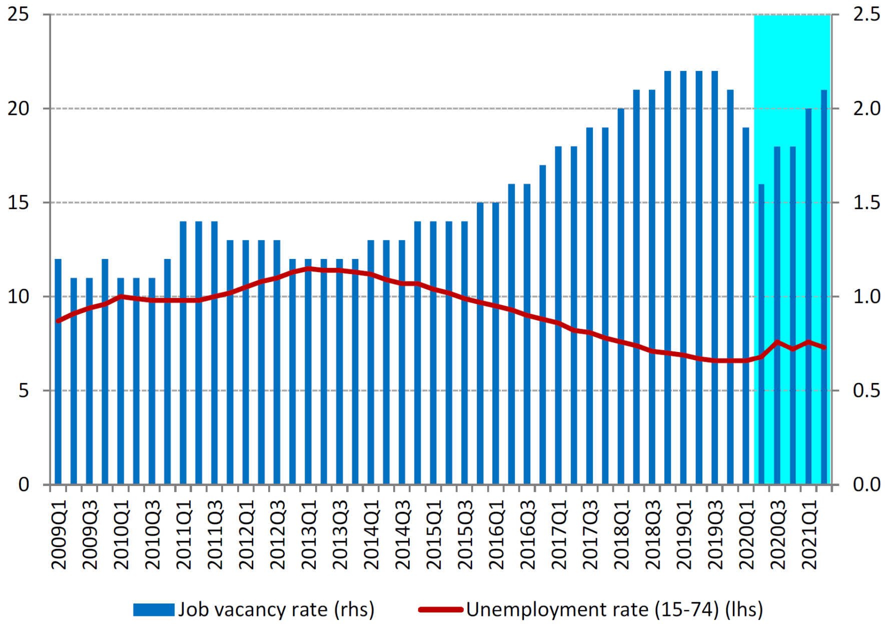
In its recent update to the Outlook Economic Report, the IMF reduced its forecat for euro area growth in 2022 from 4.3 to 3.9 percent of GDP. Such decrease is motivated by the prolonged supply constraints and COVID disruptions—led by a markdown of 0.8 percentage point for Germany, largely due to the economy's exposure to supply chain shocks. Furthermore, mobility restrictions imposed toward the end of 2021 are expected to drag on growth in the euro area in early 2022.

2.4 (Un)employment

According to the latest Eurostat figures, the seasonal-adjusted unemployment rate in the euro area went down in November 2021 to 7.2%, compared with 7.3% unemployment level observed in October 2021 and 8.1% in November 2020. Youth unemployment was also on a positive trend, at 15.5 % in the euro area in November 2021, which shows that approximatelly 188 000 young people have found jobs since November 2020. Similarly, the unemployment rate for women was 7,5% in November 2021 (0,2% lower compared to the previous month). This suggests that the positve trend in reduction of unemployment rate, as highlighted in [draft EU Joint Employment report 2022](), has continued, although employment level and total hours worked have not yet reached the ones observed pre-pandemic.

Due to the economic rebound that is taking place both in the euro area and the EU, labour shortages became more acute as measured by increasing job vacancy, which stood at 2.3% in the second quarter of 2021 (compared to 1.6% in Q2 2020) and is close to the pre-crisis level (Q2-2019 of 2,4%, also see Figure 4 below). A Eurofund study has pointed out that current labour shortages are "*determined by the disruption of intra-EU mobility and migration flows, by workers switching sectors during the pandemic, and by workers' reluctance to take up jobs in certain sectors because of concerns over wages and working conditions*". Also, as the recent proposal for a Joint Employment Report (JER) 2022 highlights, *"Rising labour and skills shortages ... emphasize the key importance of skills and education across the EU. The participation in adult learning remains low in many Member States ... [and] a cause for concern, given that skills are key to keep pace with the rapidly changing labour markets".*

Figure 4: Job vacancy rate and unemployment rate (15-74) in the EU-27



Source: European Commission

Also, in the recent Investment Report published on 12 January 2022, the European Investment Bank concurs that the European Union policy was successful in cushioning the effects of the COVID-19 crisis on labour market. However, comparing to the US policy response, *"Europe is enjoying a smoother course of adjustment in the labour market, largely avoiding the mismatch experienced by the United States during the recovery. However, going forward, the digital and green transition will likely demand structural changes to the economy and the reallocation of jobs among sectors. While successful, the intervention in the EU labour market might ultimately slow down this reallocation process".*

3 The euro area recommendation

3.1 The 2022 euro area recommendation

On 24 November 2021, the Commission published its recommendation for a Council recommendation on the 2022 economic policy of the euro area (EAR), as part of the 2022 autumn package. On 17 January the EG discussed the 2022 EAR and on 18 January ECOFIN adopted them (final text available here). In accordance with the Council 2022 European Semester roadmap, the March European Council will endorse the EAR for further submission to Council for final adoption.

The 2022 EAR addresses mainly five areas: (a) fiscal policies and fiscal stance; (b) deepening of the internal market (addressing taxation[2], labour markets, education, training and collective bargaining), (c) business environment, (d) national institutional frameworks, and (e) financial markets. Further details on the 2022 EAR are discussed in an EGOV specific briefing.

Box 3: Implementing the "comply or explain" principle

Comparing the Commission 2022 EAR proposal with the proposal agreed by the ECOFN Council (a version published after the discussions in the Eurogroup Working Group (EWG) and the Economic and Financial Committee (EFC) dated of 11 January), one could note:

- in EAR 1, dealing with the fiscal stance, the Council deleted "*Once economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment*";
- Slightly different wording in Council and Commission EAR 1 regarding the cycle of the pandemic and fiscal policies to cater for its change ("*re-emerge*" is used in the Commission text, whilst Council refers to "*uncertainty*" surrounding the evolving COVID-19 situation);
- On EAR 1, the Commission text proposed to adjust each Member State fiscal stance to a number of situations, notably the "*need to reduce economic, social and territorial divergences*"; in the Council text the reference to divergences seems a bit more nuanced;
- In EAR 2, the Council removed the Commission qualification of women and young people as "*vulnerable*" groups as regards access to labour markets;
- Still in EAR 2, the Council enlarged the reference to social protection to further refer to a strengthened access to such systems and added to the Commission proposal a reference that such systems should also cater for challenges emerging from the green and digital transitions;
- Addition, in EAR 3 dealing with the single market actions, of a reference to the real economy ("*Take actions to increase the capacity of insolvency frameworks to deal effectively and timely with bankruptcy and debt restructuring, maximize the preservation of value and promote an efficient allocation of capital in the real economy and cross-border investments*");
- The Council added "*unwarranted*" in EAR 3 to qualify the cross-border barriers to be removed through the CMU Commission proposals (thus leaving room to maintain some "warranted" cross-border barriers);
- Addition, in EAR 5 dealing with financial and banking markets, of the need to continue working on all the outstanding elements of the Banking Union with "*the same level of ambition*".

The Council "comply or explain" note signals the Commission disagreement with the Council change in EAR3. The Council justified its approach as a mere clarification that EAR3 is dealing with the "real economy", whilst issues of capital allocation on the banking sector are to be dealt in EAR5. The Commission accepted the reminder of changes outlined above.

Together with the draft EAR, the Commission published a staff working document (SWD) assessing the euro area economy. The SWD evaluates developments in the euro area in the preceding period and the implementation of the 2021 EAR, presenting also a table summarising how national RRPs are implementing the 2021 EAR. The document refers in particular "*RRPs contribute to progress in the implementation of the euro area recommendations related to public finances, to structural reforms and to the strengthening of the national institutional framework ... Measures aimed at ensuring macrofinancial stability are comparatively less present in RRPs: only four euro area Member States appear to have taken measures to that effect. However, the very creation*

[2] One may note that during the previous Economic Dialogue in June 2021, the PEG indicated that taxation issues was not in the mandate of the Eurogroup, when asked on work related to international taxation. The PEG noted: "*In relation to the communiqué at G7 level, I assume what the honourable Member is referring to is the matter of international taxation. When it comes to my work in Eurogroup, I play no role at all in regard to that, and I am very careful to stay within my mandate because this is a sensitive topic. Eurogroup does not have competence with regard to taxation ... There are many differing views amongst my colleagues on this topic. There are many other areas in which we have a consensus on the mandate, and taxation is not one of them*".

of NGEU has clearly boosted confidence in the euro area, thus contributing to macro-financial stability" (see further section 5.2 on EG involvement on RRF implementation).

3.2 Implementation of the 2021 euro area recommendation

At EU level there is no body formally responsible for implementing the EAR. Nevertheless, the Eurogroup is asked each year to "*take action*" regarding the EAR. There is also no formal procedure to follow up or monitor implementation. The Commission intended to develop a methodology to that effect, but no evidence could be found on such methodology. After a first analysis in 2019, the Commission refrained from further providing a qualitative assessment of EAR implementation.

Since the outbreak of the COVID-19 crisis, from March 2020 onward, the EG has mainly focused on crisis response. As the economy picks up, Ministers have, throughout the year, tracked the impact of the sanitary crisis by discussing pre-existing macroeconomic imbalances aggravated by the pandemic (January), macroeconomic outlook, fiscal developments and policy prospects in the euro area (February, May, September, October, November), COVID-19 sectoral impacts and structural changes (March), adjustment mechanisms within the EA (May), fiscal stance for 2022 (July), as well as medium-term implications (September). Such discussions broadly address EAR1.

Despite the focus on euro area recovery, the EG discussed further on other issues during 2021, namely:

- *Completion of the Banking Union*, thus addressing to some extent EAR5 (see section *7.2*);
- *International role of the euro*: in February, the EG reiterated the "*aim to reduce dependence on other currencies*" and "*Ministers emphasized the relevance of the discussions on a digital euro*"; in July the EG "*outlined a plan for regular, possibly quarterly, Eurogroup discussions on the implications of a digital euro*", namely on its policy objectives, uses, privacy considerations, impacts on the financial system and use of cash and the broader ecosystem around it. Such issues broadly address EAR 5.
- 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 (Greece, Portugal, Cyprus, Spain, Ireland). These issues are broadly considered under EAR 1.
- *Thematic discussions* on the adjustment mechanisms within the EA (May) and on EG's work programme 2022 (October). Such thematic discussions encompass issues addressed notably in EAR1.
- Ministers also focused on corporate sector solvency (as hinted in EAR 4). Ministers held discussions in February on corporate sector solvency on the basis of a Commission note; and stepped up discussions around insolvency frameworks in April, again on the basis of a Commission note (covering corporates and the banking sector).

Despite the breath of EG discussions in 2021, a number the issues addressed in the 2021 EAR seem to have merited less attention of ministers. These relate, notably, to anti-money laundering concerns (highlighted in EAR 5) and tax matters (EAR 2)[3].

[3] One may note that during the previous Economic Dialogue in June 2021, the President of the Eurogroup (PEG) indicated that taxation issues was not in the mandate of the Eurogroup, when asked on work related to international taxation. The PEG noted: "*In relation to the communiqué at G7 level, I assume what the honourable Member is referring to is the matter of international taxation. When it comes to my work in Eurogroup, I play no role at all in regard to that, and I am very careful to stay within my mandate because this is a sensitive topic. Eurogroup does not have competence with regard to taxation ... There are many differing views amongst my colleagues on this topic. There are many other areas in which we have a consensus on the mandate, and taxation is not one of them*".

4 The 2022 European Semester Cycle

4.1 A streamlined Semester

The 2022 European Semester cycle, like the previous one, is being adapted to the implementation of the RRF, as the two processes are closely linked in terms of procedures and substance. To ensure synergies and avoid administrative burdens for Member States, the Commission will:

- Streamline reporting obligations: for example, the national reform programmes will also be used for the bi-annual reporting under the RRF.
- Make use of IT tools to monitor both the implementation of the plans and the progress on country specific recommendations.
- Integrate bilateral exchanges with Member States under the European Semester with the dialogue on the implementation of their RRPs.

According to the Commission's Communication of October 2021, the 2022 European Semester Spring package will include:

- Streamlined country reports, identifying gaps related to those challenges that are only partially or not addressed by RRPs.
- Draft country-specific recommendations, to help bring forward Member States' efforts under RRPs, while addressing emerging socio-economic challenges to the twin transition and build up resilience. There will also be fiscal recommendations.

The Commission claims that it is committed to strengthening the democratic accountability of the Union's economic governance and will continue the strengthened inter-institutional dialogue at EU level with both the European Parliament[4] and the Council[5]. In particular, it "*will engage with the European Parliament before each key stage of the European Semester. The Commission will also continue to contribute to the Recovery and Resilience Dialogues with the Parliament and maintain regular exchanges in a dedicated Parliament Working Group on the RRF*".

[4] The European Parliament has started its deliberations on the 2022 Semester Cycle, notably by tabling two draft reports:
ECON Committee Draft Report on the European Semester for economic policy coordination: ASGS 2022 (Rapporteur Irene Tinagli, S&D)
EMPL Committee Draft Report on the European Semester for economic policy coordination: Employment and Social Aspects in the ASGS 2022 (Rapporteur Helmut Geuking, EPP).
Furthermore, an inter-parliamentary meeting (the European Parliamentary Week), organised jointly with the French Parliament, is scheduled to take place on 15–16 March.

[5] On 18 January 2022, the ECOFIN Council called for keeping the European Semester focused on economic, fiscal and employment policies, as the Commission continues the integration of the relevant United Nations' sustainable development goals in the European Semester. It also welcomed that the European Semester resumes its broad economic, fiscal and employment policies coordination in 2022, including the publication of streamlined country reports and the adoption of country-specific recommendations. It acknowledged the need of temporary adapting the European Semester to the implementation of the Recovery and Resilience Facility and called for ensuring synergies and streamlined reporting requirements under the two processes, including specifying the role of national reform programmes.

4.2 Surveillance on public finances[6]

The Commission Opinions on the 2022 Draft Budgetary Plans (DBPs)

In November 2021, the Commission analysed the 2022 DBP of euro area member States and concluded that[7]:

High-debt Member States (Belgium, France, Greece, Italy and Spain): *as recommended by the Council, use the RRF to finance additional investment in support of the recovery and preserve nationally financed investment.*

More specifically the Commission stated that:

- Italy has been recommended by the Council to limit the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to Italy's overall supportive fiscal stance. In order to contribute to the pursuit of a prudent fiscal policy, the Commission invites Italy to take the necessary measures within the national budgetary process to limit the growth of nationally financed current expenditure.

- Belgium, France, Greece, Italy and Spain, given the level of their government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supporting budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

Low/medium debt Member States *(Austria, Cyprus, Estonia, Finland, Germany, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Slovenia and Slovakia): as recommended by the Council, with the exception of Slovakia and Malta, pursue a supportive fiscal stance, including the impulse provided by the RRF.*

More specifically, the Commission stated that:

- Slovakia's restrictive fiscal stance occurs against the background of high output growth and emerging capacity constraints.

- Malta's neutral stance reflects mainly very high estimated potential growth, while public investment reaches a historically high level. This is broadly as recommended by the Council.

6 **2022 EAR - 1**: *Continue to use and coordinate national fiscal policies across Member States to effectively underpin a sustainable and inclusive recovery. Maintain a moderately supportive fiscal stance in 2022 across the euro area, taking into account national budgets and the funding provided by the RRF.*

Gradually pivot fiscal measures towards investments that promote a sustainable and inclusive recovery, consistent with the green and digital transitions, paying particular attention to the quality of budgetary measures.

Reflecting the degree of uncertainty, keep fiscal policy agile in order to be able to react to the evolution of the pandemic. Differentiate fiscal policies taking into account the strength of the recovery, ensuring fiscal sustainability and enhancing investments, while bearing in mind the need to reduce divergences.

2022 EAR - 2: *Promote policies that tackle aggressive tax planning, tax evasion and tax avoidance to ensure fair and efficient tax systems. Work to limit harmful tax competition including through the implementation of the global consensus-based solution to address the tax challenges arising from the digitalisation and globalisation of the economy. Lower the tax wedge on labour and promote a shift-from labour taxation towards taxes that are less distortive.*

Transition from emergency to recovery measures in labour markets by ensuring effective active labour market policies: (i) supporting job transitions, in particular towards the green and digital economy, (ii) combining measures tackling skills shortages, strengthening upskilling and re-skilling, providing targeted hiring incentives and (iii) enhancing the capacity of public employment services to address labour market mismatches.

Strengthen inclusive quality education and training systems. Promote labour market integration of young people, women, and vulnerable groups, ensure adequate working conditions and address labour market segmentation, develop and adapt where needed social protection systems and strengthen access in order to address challenges emerging from the COVID-19 crisis and those related to the green and digital transitions.

Ensure the effective involvement of social partners in policy making, strengthen social dialogue and promote collective bargaining. Ensure sharing of, and convergence towards, good practices in labour market and social policies that increase economic and social resilience.

7 The Commission opinions are based on the Commission 2021 autumn forecast. The Opinions assess compliance with the Council recommendations of June 2021 (this year's country specific recommendations).

- Latvia and Lithuania have been recommended by the Council to control the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to their overall supportive fiscal stance.

- Furthermore, all these Member States plan to use the RRF to support their recovery, while the Netherlands has not yet submitted its Recovery and Resilience Plan, and preserve or broadly preserve nationally financed investment.

Overall, the Draft Budgetary Plans include measures that go in the direction of strengthening the composition of public finances and contributing to a sustainable and inclusive recovery, including through growth-enhancing investment, notably supporting the green and digital transition. A complete assessment of the fiscal-structural reforms implemented by Member States will be done in the context of the assessment of the implementation of the RRPs and the 2022 Country Report.

Taking into account the strength of their recovery, Member States are invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

On 6 December, the Eurogroup welcomed the Commission's analysis of the budgetary situation in the euro area as a whole and its Opinions on DBPs of the euro area Member States and stated that: "*This exercise is key to the coordination of fiscal policy in the euro area*".

Fiscal stance in 2022

According to the Commission assessments of the 2022 DBPs:

"*While the aggregate euro area fiscal stance is supportive in 2022, its composition could be improved. In the 2021 CSRs, Member States were recommended to implement different types of fiscal strategies based on the level of their public debt. Member States with low debt should pursue a supportive fiscal stance, including the impulse provided by the RRF. Member States with high debt should use the RRF to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Member States should preserve nationally financed investment. At the same time, the growth of nationally financed current expenditure should be kept under control, and be limited for Member States with high debt. As shown in Section III below, all Member States are complying with the recommendations to use the RRF to finance additional investment in support of the recovery and all Member States, preserve or broadly preserve their nationally financed investment. However, a further increase in nationally financed current expenditure above potential growth is expected in 2022 in several Member States, including some with high debt-sustainability risks. This projected increase in current expenditure above potential growth follows similar trends in 2020 and 2021, suggesting an increasing weight of permanent current expenditure or unfunded tax cuts. The composition of the 2022 fiscal stance could therefore be improved by shifting the fiscal support towards investment to the possible extent. These elements would promote investment and lead to an improvement in medium-term fiscal sustainability. Moreover, for high-debt Member States, limiting the growth of current expenditure will help to pursue a prudent fiscal policy, as recommended by the Council.*"

Deactivation of the general escaple clause

In its Communication "Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy", of June 2021, the Commission stated: **"***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."*

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 summaries of these papers.

Box 4: The latest Annual Report by the European Fiscal Board (EFB)

The fifth annual report by the EFB published on 10 November 2021 assesses the implementation of the EU fiscal framework during the first year of the Covid-19 pandemic and clarifies the EFB's reform proposals to account for post-pandemic realities.

The Covid-19 pandemic pushed the EU into an economic recession with an average annual decline in real GDP of more than 6% by 2020. Against such a backdrop, a number of important measures provided the necessary room for policy manoeuvre, notably the activation of the severe economic downturn clause of the Stability and Growth Pact, the ECB's pandemic emergency purchase programme (PEPP) and the EU's Next Generation EU (NGEU) initiative. At the same time, the policy response also revealed issues in the EU fiscal framework:

- the difficulty for some Member States to create fiscal buffers in good economic times

- the tendency to improvise new forms of flexibility in the application of the EU fiscal rules or new risk-sharing elements when times turn bad

- the lack of clarity on timing and conditions for the deactivation of the severe economic downturn clause.

4.3. Surveillance of macro-economic imbalances

The 2022 Alert Mechanism Report concludes that the Commission' surveillance activities need to focus on countries that were already identified as having imbalances or excessive imbalances in the 2021 cycle. Therefore, the Commission recommends that In-depth-review to identify and assess the severity of possible macroeconomic imbalances be prepared for the following euro area Member States:

France, Germany, Ireland, Netherlands, Portugal, and Spain (the six euro area Member States experiencing imbalances in the 2021 cycle) and for Italy, Greece and Cyprus (that were experiencing excessive macroeconomic imbalances in the 2021 cycle).

Furthermore, the Commission will closely follow developments in other Member States, namely:

- Slovakia, because of strong house price growth accompanied by an increase in households' borrowing.
- Luxembourg, where developments in the housing market point to a build-up of risks.
- Malta, where growing private debt combined with weaknesses of the insolvency framework create particular vulnerabilities.

On 18 January, the ECOFIN Council adopted its conclusions on the 2022 AMR. It welcomed the high-quality analysis in the AMR and appreciated that the Commission continues using analytical frameworks developed in consultation with Member States. It welcomed that the report continues to include a forward-looking assessment of the potential implications of the crisis for macroeconomic stability and the evolution of existing macroeconomic imbalances, which is particularly relevant, given the significant uncertainty around the full impact of the COVID-19 crisis. It also recalled the still substantial uncertainty about the evolution of the economies and underlined the need for prudence in drawing conclusions on imbalances based on forecast data.

This EGOV note provides more details on the MIP implementation.

5 RRF implementation

5.1 State of play

Following the adoption of the Recovery and Resilience Regulation setting out the Recovery and Resilience Facility[8], all Member States but Netherlands submitted Recovery and Resilience Plans (RRPs) to the Commission. Out of the 26 submitted plans, the Commission assessed 22[9] plans and the Council adopted the 22 Commission's assessments. Further information on the RRF and the RRPs can be found in a specific EGOV briefing.

As of 28 January, the Commission disbursed pre-financing to 21 Member States (see ***Table 1*** below).

Table 1: Pre-financing disbursements

Country	Date	Grants/loans	Amounts (€)
Finland	21/01/2022	Grants	271.094.341
Romania	13/01/2022	Loans	1.942.479.890
	02/12/2021	Grants	1.851.159.668
Estonia	17/12/2021	Grants	126.008.898
Malta	17/12/2021	Grants	41.132.454
Slovakia	13/10/2021	Grants	822.716.227
Austria	28/09/2021	Grants	449.981.847
Croatia	28/09/2021	Grants	818.406.049
Czechia	28/09/2021	Grants	914.640.681
Slovenia	17/09/2021	Grants	231.000.547
Latvia	10/09/2021	Grants	237.380.000
Cyprus	09/09/2021	Grants	130.772.986
	09/09/2021	Loans	26.041.600
Denmark	02/09/2021	Grants	201.682.144
Germany	26/08/2021	Grants	2.250.000.000
France	19/08/2021	Grants	5.117.881.402
Lithuania	17/08/2021	Grants	289.145.365
Spain	17/08/2021	Grants	9.036.636.649
Italy	13/08/2021	Grants	8.954.466.787
	13/08/2021	Loans	15.938.235.352
Greece	09/08/2021	Grants	2.310.092.538
	09/08/2021	Loans	1.654.580.060
Belgium	03/08/2021	Grants	770.113.932
Luxembourg	03/08/2021	Grants	12.136.030
Portugal	03/08/2021	Grants	1.807.948.257
	03/08/2021	Loans	350.870.000
Total			56.556.603.704

Source: EGOV elaboration on the basis of the Commission RRF Scoreboard and relevant Commission press releases

8 For an overview of the Recovery and Resilience Facility see here.

9 Assessments for Hungary, Poland, Sweden and Bulgaria are pending. Netherlands has yet to present its RRP.

By 28 January, the Commission RRF scoreboard reported on 4 payment requests: from Spain[10], Italy[11], Greece[12] and France[13]. So far, only Spain received a disbursement, on 27 December 2021[14].

5.2 The Eurogroup and the Recovery and Resilience Facility

When preparing their Recovery and Resilience Plans (RRPs), euro area Member States were required to take into account the 2021 EAR (see further details in an EGOV specific briefing dealing with the EAR) and the Eurogroup has been monitoring progress on RRPs implementation.

Eurogroup discussions touched upon RRF and RRPs a number of times during 2021. ***Box 6*** below hightlights the main elements of such discussions (further details can be found in EGOV briefing dealing with the euro area recommendation).

Box 5: Eurogroup role in the implementation of the RRF

The RRF Regulation does not foresee a specific role for the Eurogroup or the Eurogroup Working Group (EWG), its preparatory body, in monitoring the RRF and its implementation. Nevertheless, the PEG has clearly indicated that the EG would be involved. Furthermore, the Commission made a presentation to the EWG focusing on euro area priorities in the RRPs on 24 September 2021 and in October a presentation to the EG itself. The EG held discussions on the RRF at various occasions (see below *Box 6*).

The EG role in the RRF is further underlined in a background note prepared for the January 2021 Eurogroup: "*These recommendations [the 2021 EAR] are an important reference point for the development of RRPs of euro area Member States ... 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 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)*".

10 Spain submitted its request on 11 November 2021 for an amount of EUR 10 billion (net of pre-financing). This first payment request relates to 52 milestones covering several reforms in the areas of sustainable mobility, energy efficiency, decarbonisation, connectivity, public administration, skills, education and social, labour and fiscal policy.

11 Italy submitted its request on 30 December 2021 for an amount of EUR 21 billion (net of pre-financing). This first payment request relates to 51 milestones covering several reforms in the areas of areas of justice, public administration, audit and control, education, active labour market policies, digital and tourist sectors as well as simplification of legislation in sectors like waste, water and rail transport.

12 Greece submitted its request on 29 December for an amount of EUR 3.6 billion (net of pre-financing). This first payment request relates to 15 milestones covering reforms and investments in the areas of energy efficiency, sustainable mobility, waste management and civil protection, active labour market policies, healthcare, tax administration, justice, business extroversion, and the audit and control system linked to the RRF. Two of the milestones and targets concern the first steps of the implementation of the loan part of the Facility.

13 The Commission announced the French request on 29 November. France requested an amount of EUR 7.4 billion (net of pre-financing). This first payment request relates to 38 milestones. The Commission issued a preliminary positive assessment of the French request on 26 January.

14 On 11 November, Spain submitted its first request for EUR 10 billion (net of pre-financing).

Box 6: Relevant Eurogroup Discussions on the RRF

In their 18 January meeting, Ministers underscored the "*the importance of swift and effective implementation of RRPs and RRF financing*" and expressed a "*shared desire to capitalise on this unique window of opportunity to support reforms and to meet investment needs that are critical to promote resilience, address imbalances, deliver a sustainable and inclusive recovery and boost long-term growth*". Additionally, following an update from the Commission, the PEG positively remarked that euro area priorities and a number of Country Specific Recommendations were already reflected to some extent in the draft national RRPs. The EG then committed to "*continue to foster consistency and coherence between national policies and euro area priorities in the use of the recovery facility*".

Similarly, in its 15 March statement, the EG has referred to the RRF as one of the "*new common instruments of unprecedented size*" put in place by the EU as a response to the COVID-19 crisis. It further recognised that the RRF can "*channel investment into areas where it is needed the most, and to support growth-enhancing reforms ... contributing to fiscal sustainability*". Consequently, the EG considered "*important to embed the RRF in medium-term budgetary strategies*" and reiterated that the "*timely implementation of the RRF remains of utmost priority*". Two months later, on 31 May, the Ministers have, once more, underlined the "*importance of a strong and swift implementation of the Recovery and Resilience Facility to reap its benefits and move ahead with the reforms that will support the green and digital transformation*".

In September, when discussing corporate solvency and adjustment capacity in the euro area, Ministers reiterated the "*need to use the potential of the Recovery and Resilience Facility to support corporate sector restructuring in the context of the green and digital transitions*".

In October, the Ministers discussed the euro area dimension of the RRPs on the basis of a Commission presentation, and the PEG concluded noting "*a shared view that Member States' plans are making a very relevant contribution towards ensuring an adequate fiscal policy stance, promoting economic convergence and enhancing institutional capacity. As such, the plans are helping us to implement the first three of this year's Council Recommendations on the economic policy of the euro area. Looking to the future, there is still progress to be made in terms of addressing some macrofinancial risks and – at the collective level – in terms of completing the Banking Union, Capital Markets Union and the overall strengthening of our monetary union*".

5.3 Financing the Recovery and Resilience Facility

To finance the RRF, the Commission is issuing debt (bonds and short term securities, the EU bills) on capital markets under the so called "diversified funding strategy"[15]. Repayment of such debt is to be ensured through implementation of a roadmap for introducing new EU Own Resources, as agreed in an

[15] See here and EGOV briefing for further details. The legal basis for the diversified funding strategy is the Commission Implementing Decision C(2021) 2502. It provides that borrowing instruments under the diversified funding strategy are to include a combination of long-term bonds and short-term funding in the form of EU-Bills. NGEU borrowing operations are organised as auctions, syndicated transactions, private placement, or through credit lines depending on which format is most appropriate given the size and nature of the operation.

The Commission funding strategy rests on a number of documents, notably the semi-annual funding plan (first version published in June 2021 and further updated in September 2021; the funding plan established a EUR 80 billion limit, further reduced to EUR 71billion in October 2021 due to lower than expected disbursement needs) and annual borrowing decisions. This structure is in line with that used by large sovereign issuers; it allows establishing a transparent strategy towards investors and coordinate with issuances of other sovereign issuers.

The most recent funding plan dates of 14 December 2021. The plan foresees the issuance of EUR 50 billion of long-term EU-Bonds between January and June 2022 and is aligned with the forecasts for disbursements under the NGEU, in particular with the RRF (which accounts for 90% of payments under NGEU). In 2022, the Commission intends to issue both conventional and NGEU green bonds, both via syndications and auctions. Short-term EU-Bills will continue to be issued exclusively via auctions but the Commission will further develop the use of auctions as an issuance format. The Commission plans to continue present inn the market to finance its other programmes (notably, the the European Financial Stabilisation Mechanism, SURE and the macrofinancial assistance facility), with an estimated funding volume over the period January to June 2022 of around EUR 5.5 billion.

The 2022 annual borrowing decision was adopted on 14 December 2021. The annual borrowing decision sets the maximum limits for the NGEU borrowing operations and NGEU debt management operations. The set limits are as follows: (a) long-term funding, up to a maximum amount of EUR 140 billion (EUR 20 billion suspended pending requests for loans under the RRF); (b) short-term funding, up to a maximum outstanding amount of EUR 60 billion. The maximum amount per issuance of long-term funding is set at EUR 20 billion and the maximum average maturity of long-term funding is set at 17 years. All relevant legal texts can be found here.

Interinstitutional agreement (IIA) between the Parliament, the Council and the Commission (see below point 5.4).

The Commission raises funds through a combination of auctions, syndicated transactions, private placement, or credit lines (auctions and syndicated transactions being the most frequently used). To facilitate issuances, the Commission has set up a group of primary market underwriters (the Primary Dealer Network). Financing the Next Generation EU (NGEU), of which the RRF is the most relevant programme, will require issuing around EUR 800 billion until 2026.

On 15 June 2021, the Commission launched the first NGEU bond issuance, EUR 20 billion, via a ten-year bond due on 4 July 2031. On 22 June 2021, the bonds were listed in Luxembourg. So far, the Commission issued around EUR 73,5 billion in bonds for financing NGEU; these are listed in Annex 3.

Part of NGEU debt issuances will be covered by the Green Bond framework[16], announced on 7 September 2021. The green bonds will finance the share of climate-relevant expenditure in the RRF. A specific framework for reporting has been set out, to provide transparency to investors on how the proceeds of the EU green bonds are invested. The first issuance of Green bonds took place on 12 October 2021 and the second one in January 2022.

The first bill (EU bill) issuance took place on 15 September 2021. The bills are traded in Luxembourg Stock exchange as well. See Annex 3 for the bills issuances so far.

5.4 Repaying the Recovery and Resilience Facility issued debt

The repayment strategy for NGEU issuances rests "*on a steady and progressive reduction in outstanding liabilities from 2028 onwards*", whilst ensuring sufficient liquidity in each line[17]. While RRF grants are to be repaid through EU budget resources, the RRF loans are to be repaid by the Member States requesting such loans.

An Interinstitutional agreement (IIA) between the Parliament, the Council and the Commission provides for a roadmap for introducing new EU Own Resources to finance repayment of NGEU debt issuances. According to this roadmap, the Commission would have proposed by June 2021 new own resources based on a carbon border adjustment mechanism (CBAM), the Emissions Trading System (ETS) and a digital levy. Such proposals were postponed.

On 22 December 2021, the Commission proposed three new sources of revenue to the EU budget - based on the ETS, the proposed CBAM, and on the share of residual profits from multinationals following the recent OECD/G20 agreement on a re-allocation of taxing rights (the so-called "Pillar One"). The Commission expects the new sources of revenue to generate on average a total of up to €17 billion annually for the EU budget in the period 2026-2030[18].

The Commission December package referred to above comprises two measures: a proposal to amend the own resources decision (requiring unanimity in Council and consultation with the European Parliament, and national ratification) and targeted amendments to the Multiannual financial framework (requiring

[16] Details of the Green Bond Framework are set out in a Commission Staff Working Document, dated of 7 September. The Green bond framework is aligned with the principles of the International Capital Market Association (ICMA), and has been reviewed by a second party opinion provider. Such provider, Vigeo Eiris, considers "*that the framework is aligned with the ICMA's Green Bond Principles, is coherent with the EU's wider Environmental, Social and Governance (ESG) strategy and will provide a robust contribution to sustainability.*" (further details and explanations can be found here).

[17] See here, the 2022 Commission annual borrowing decision.

[18] According to information in the public domain, some expressed their reservation at the ECOFIN meeting of 18 January with proposal to introduce a minimum global corporate tax rate of 15 percent by January 2023.

unanimous adoption by Council after obtaining the consent of the European Parliament). There is yet limited information on the Council timeline for discussing these proposals. The ECOFIN Council plans to discuss the issue at its June meeting[19].

The Commission will also present a proposal for a second basket of new own resources by the end of 2023[20], building on the 'Business in Europe: Framework for Income Taxation (BEFIT)' proposal foreseen for 2023[21].

6 Completing the EMU

6.1 Review of the EU economic governance framework[22]

The Commission published in February 2020 a report on the application of the regulations providing for the current economic and fiscal surveillance in the EU and launched a public debate to give stakeholders the opportunity to provide their views on the functioning of surveillance and on possible ways to enhance the effectiveness of the economic governance framework.

In October 2021, the Commission relaunched the economic governance review. It builds on a Commission's Communication on the implications of COVID-19 for economic governance, aimed at building consensus on how to improve the effectiveness of economic surveillance and policy coordination. In doing so, the Commission intends to take into account the changed circumstances for economic governance and the challenges arising from the COVID-19 outbreak (e.g. the high levels of public debts or the investment needs for the green and digital transitions) and the lessons learnt from the EU policy response to the outbreak, in particular from the governance of the RRF.

In July 2021, the European Parliament adopted an own-initiative report on the reform of the macroeconomic legislative framework.

On 17 January, the Eurogroup[23] debated the euro-area aspects of the economic governance review, on the basis of a Secretariat's note including four questions for discussion. In his post-meeting remarks, the Eurogroup's President stated "*We had our first substantive discussion on the euro area dimension of the economic governance framework. And in this part of our meeting, we heard many views from governments in relation to the draft budgetary plan process, the surveillance procedures that are in place, the fiscal rules, the value of national economic policy coordination, and also in relation to how we can ensure that we have commitments in place regarding our national finances, that they are fulfilled and overseen in a transparent way. This was the first discussion on this particular topic. It's fair to say and indeed evident that we will have many other discussions on this topic in the period ahead. But we did have a good tone in this discussion, colleagues intervened aware of the importance of this discussion and while outlining their national views, they were aware of the need to find agreement in this area as we will move through 2022*".

[19] A specific Working party in Council might be the one preparing Council discussions (see here, the Council Working Party on Own Resources). The WP is linked to ECOFIN. The ECOFIN Budget Committee might also be involved. The relevant Commission proposals were transmitted to Council on 22 December 2021 (see here, here and here) and the WPOR met already on the 10 January to discuss the Commission proposal for a new own resources decision. The WPOR meetings for the first semester has already been presented to meting delegates (see here; Council list of documents made available to Council working parties).

[20] Anticipating the deadline agreed in the IIA by one year, from 2024 to 2023 (as reiterated by Commissioner Hahn in a hearing in January 2021 before the BUDG Committee and in the Commission Communication accompanying the December 2021 proposals).

[21] The Commission Communication notes that this second proposal "*could include a Financial Transaction Tax and an own resource linked to the corporate sector*".

[22] **2022 EAR - 5:** (...) Further steps in deepening the EMU should take into account the lessons learnt from the Union's comprehensive economic policy response to the COVID-19 crisis. Progress on deepening EMU should be pursued in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.

[23] On 18 January 2022, the ECOFIN Council concluded it will continue thorough discussions on the EU economic governance review, including the SGP and the MIP. It noted the intention of the Commission to provide orientations on possible changes to the economic governance framework and acknowledged the need to build a broad-based consensus, insofar the effective functioning of the surveillance framework is the collective responsibility of all Member States, EU institutions and key stakeholders.

The theme of economic governance review is also highlighted by the programme of the French Presidency of the Council: the framework document states that the French Presidency *"will take forward discussions on the review of the EU's economic governance framework, including analysis of the repercussions of the COVID-19 crisis on the European economy and on challenges it faces, fiscal rules and the macroeconomic imbalances procedure, with the aim of preventing any stifling of growth and enabling the necessary investments to be made in the green and digital transitions to build the European economic model for 2030"*. To that end, *"it will support joint thinking on a new European model for growth, investment and employment at an informal meeting of Heads of State and Government on 10 and 11 March."*

According to information in the public domain[24], EU Finance Ministers will discuss the revision of the SGP *"at their informal meeting on 25-26 February in Paris"*. In spring, presumably as part of the 2022 CSRs to Member States, *"the Commission will present its conclusions on the discussions on the reform of the fiscal rules"*. According to Mr Gentiloni, *"the EU institution has already received 250 contributions to the consultation ... The ECOFIN Council, or even the June Euro Summit, could take political decisions on the reform of the fiscal rules, which the Commission would then transcribe into a legislative proposal to be presented in July. However, Mr Dombrovskis acknowledged, it seems "unlikely" that legislative proposals tabled in the middle of the year will be agreed in time to apply starting 2023, when the general escape clause that 'froze' the Pact to allow Member States to deal with the Covid-19 pandemic will be deactivated unless there is a major downturn in the economy"*. That is why guidance for economic and fiscal policies in 2023 would provide "a bridging solution", until reform is implemented (similar to the interpretative communication on the flexibility of the Pact, which the Commission presented in January 2015 to stimulate structural reforms and facilitate public investment).

Box 7: Some reactions to the Commission consultation on the review

On 1 December 2021, the ECB published its reply to the Commission Communication of October 2021.

On 10 November 2021, the European Fiscal Board (EFB) published its fifth annual report, which clarifies the EFB's reform proposals for the EU fiscal framework taking into account the post-pandemic reality

In September 2021, the Network of Independent EU Fiscal Institutions put forward a contribution and proposals to the debate.

On 25 October 2021, the European Stability Mechanism published its ESM Discussion Paper 17: "EU fiscal rules: reform considerations".

6.2 Completion of the Banking Union[25]

As regards the completion of the Banking Union, finalisation of the **Single Resolution Fund backstop** was the most visible outcome since the inception of the COVID-19 crisis.

The ratification of the Agreement Amending the ESM Treaty signed on 27 January and 8 February 2021, provides a legal basis for a set of new tasks assigned to the ESM, including providing a backstop to the Single Resolution Fund. To date, fifteen countries have ratified the intergovernmental agreement reforming the ESM (the status of the ratification of the ESM reform can be found here). In particular in Germany, the

[24] Source: Agence Europe Bulletin Quotidien Europe (requires registration).

[25] **2022 EAR - 5**: *Ensure macro-financial stability, and maintain the credit channels to the economy, continuing to address non-performing loans through, amongst others, monitoring asset quality, timely and pro-active engagement with distressed debtors (in particular viable ones) and the further development of secondary markets for non-performing loans. Continue to work on completing the Banking Union, by means of a step-wise and time-bound work plan on all outstanding elements needed and with the same level of ambition, and on strengthening the international role of the euro. Continue to support exploratory work on the possible introduction of a digital euro. Further steps in deepening the EMU should take into account the lessons learnt from the Union's comprehensive economic policy response to the COVID-19 crisis. Progress on deepening EMU should be pursued in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.*

procedure is blocked due to an appeal to the Constitutional Court in Karlsruhe; and in Italy, difficulties have also arisen and are slowing down the process.

However, as regards the introduction of a **European Deposit Insurance Scheme** (EDIS), there is no such visible progress. The Council recommendation on the economic policy of the euro area, approved by Ecofin on 18 January 2022, once again makes the call to "*Continue to work on completing the Banking Union, by means of a step-wise and time-bound work plan on all outstanding elements needed and with the same level of ambition*".

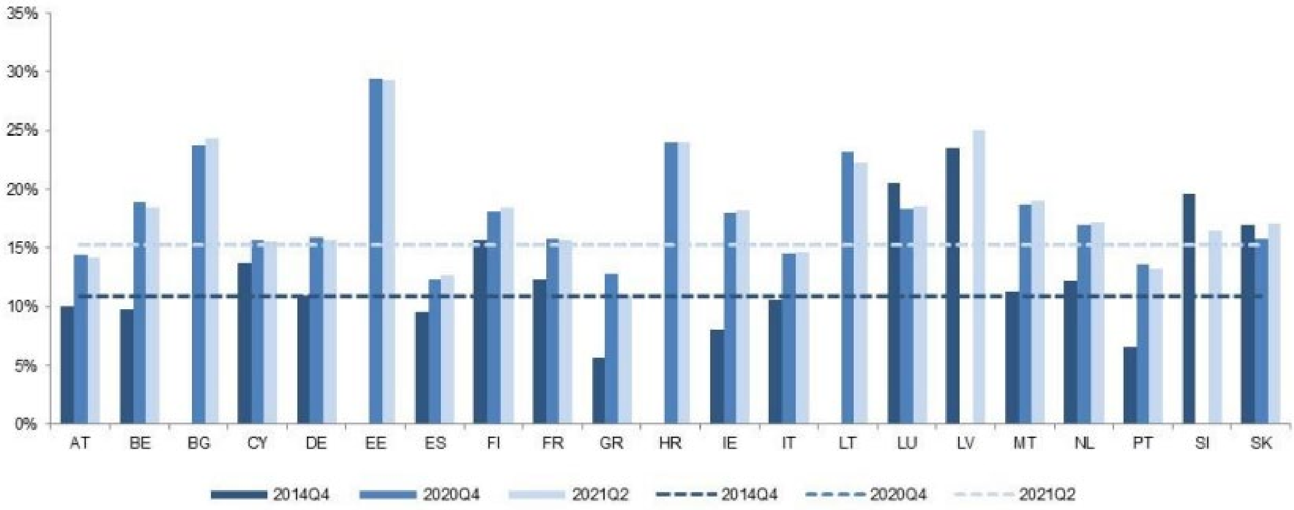
The Euro Summit meeting statement of 25 June 2021 reads very much alike: "*We reiterate our full commitment to the completion of the Banking Union and, capitalising on recent discussions, invite the Eurogroup in inclusive format to agree, without delay and on a consensual basis, on a stepwise and time-bound work plan on all outstanding elements needed to complete the Banking Union.*"

The Council already agreed in June 2016 that negotiations about EDIS will start at political level as soon as sufficient further progress has been made on the measures on **risk reduction**. The Council agreement on measures to reduce risk of May 2018 was therefore an important step to come to an objective assessment of the progress made in the implementation of risk reduction measures. That assessment is since made in the "monitoring reports on risk reduction indicators" that are jointly prepared by the services of the European Commission, the European Central Bank and the Single Resolution Board.

The ninth edition of that report was published in November 2021. That **monitoring report** sets out that the **capital position** (CET 1) of banks has on average remained largely stable over the past quarters, though with heterogeneous developments in different Member States. The largest decrease of CET 1 was noted for banks in Greece (minus 2.0 pp), causing their capital position to drop to the average level that banks held in 2014 (see Figure 5).

The monitoring report also elaborates in detail on the **development of non-performing loans** (NPLs): all related indicators (gross NPL ratio, net NPL ratio and NPE ratio) continued to decrease in the first half of 2021. The largest reduction in the gross NPL ratio was observed in Greece, which came down by 10.7 pp to 14.8%, though the level achieved is still way above the average gross NPL ratio of 2.3% in the euro area. The monitoring report, however, cautions that the impact of the COVID-19 pandemic on credit quality (as well as on other indicators) continues to be difficult to be quantified, as the lag between economic shocks and corporate defaults is already long under normal circumstances, and may have become even longer during the COVID-19 pandemic due to the fiscal support and repayment moratoria which borrowers could make use of. As a result, NPL figures for Q2 2021 may only partially reflect the impact of the COVID-19 pandemic.

Figure 5: Fully loaded CET1 capital ratio of banks, by Member State



Source: Joint [monitoring report on risk reduction indicators](#) of November 2021

As regards **progress on the Capital Market Union**[26], the Eurogroup and French Presidency committed to advancing the CMU agenda for the first half of the year. The Council Presidency committed to actively make progress with the legislative proposals on CMU, *"focusing in particular on the negotiations regarding a single access point for financial and non-financial information, the long-term investment funds framework and the review of the Alternative Investment Fund Managers Directive"*.

[26] **2022 EAR - 3**: *Monitor the effectiveness of policy support packages for companies, focus on a more targeted support for the solvency of viable firms that have come under stress during the pandemic, and make greater use of equity-type instruments. Take actions to increase the capacity of insolvency frameworks to deal effectively and timely with bankruptcy and debt restructuring, maximize the preservation of value and promote an efficient allocation of capital in the real economy and cross-border investments. Make swift progress in deepening the Capital Markets Union, on which the Commission has made legislative proposals with a focus on supporting the financing of the economy, enhancing investment opportunities for firms and individuals and removing unwarranted cross-border barriers to investments in the single market.*

Annex 1: GDP growth in euro area Member States

	Eurostat* (01/2022)					EC (11/2021)			IMF (10/2021)			ECB (12/2021)			OECD (12/2021)		
	2019	2020	2021 Q1	2021 Q2	2021 Q3	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
BE	2.1	-5.7	1.2	1.7	2.0	6.0	2.6	1.9	5.6	3.1	1.8	6.1	2.6	2.4	6.1	3.2	1.4
DE	1.1	-4.6	-1.9	2.0	1.7	2.7	4.6	1.7	3.1	4.6	1.6	2.5	4.2	3.2	2.9	4.1	2.4
EE	4.1	-3.0	3.4	2.3	0.7	9.0	3.7	3.5	8.5	4.2	3.7	8.0	2.8	3.9	9.6	4.5	3.8
IE	4.9	5.9	10.0	5.2	0.9	14.6	5.1	4.1	13.0	3.5	3.9	15.8	7.0	5.6	15.2	5.7	3.9
EL	1.8	-9.0	4.2	2.1	2.7	7.1	5.2	3.6	6.5	4.6	2.6	7.2	5.0	3.9	6.7	4.8	2.9
ES	2.1	-10.8	-0.7	1.2	2.6	4.6	5.5	4.4	5.7	6.4	2.6	4.5	5.4	3.9	4.5	5.5	3.9
FR	1.8	-7.9	0.1	1.3	3.0	6.5	3.8	2.3	6.3	3.9	1.8	6.7	3.6	2.2	6.8	4.2	2.1
IT	0.4	-8.9	0.3	2.7	2.6	6.2	4.3	2.3	5.8	4.2	1.6	6.2	4.0	2.5	6.3	4.6	2.6
CY	5.3	-5.2	1.4	1.5	1.5	5.4	4.2	3.5	4.8	3.6	3.2	5.6	3.6	3.7	:	:	:
LV	2.5	-3.6	0.4	2.5	0.6	4.7	5.0	4.0	4.5	5.2	4.0	4.6	4.2	4.0	4.3	3.6	4.8
LT	4.6	-0.1	2.1	2.0	0.0	5.0	3.6	3.4	4.7	4.1	3.1	5.1	3.6	3.8	5.1	3.8	3.6
LU	3.3	-1.8	3.7	0.0	0.9	5.8	3.7	2.7	5.5	3.8	3.0	6.0	3.7	3.2	6.5	3.7	3.1
MT	5.9	-8.2	3.3	0.6	1.5	5.0	6.2	4.8	5.7	6.0	4.9	6.0	6.5	5.3	:	:	:
NL	2.0	-3.8	-0.8	3.8	2.1	4.0	3.3	1.6	3.8	3.2	2.1	4.5	3.6	1.7	4.3	3.2	1.8
AT	1.5	-6.7	-0.4	4.2	3.8	4.4	4.9	1.9	3.9	4.5	2.1	4.9	4.3	2.6	4.1	4.6	2.5
PT	2.7	-8.4	-3.3	4.4	2.9	4.5	5.3	2.4	4.4	5.1	2.5	4.8	5.8	3.1	4.8	5.8	2.8
SI	3.3	-4.2	1.5	2.0	1.3	6.4	4.2	3.5	6.3	4.6	3.7	6.7	4.0	3.3	5.9	5.4	3.2
SK	2.6	-4.4	-1.4	1.9	0.4	3.8	5.3	4.3	4.4	5.2	4.3	3.1	5.8	5.6	3.2	5.0	4.9
FI	1.2	-2.8	0.3	2.0	0.8	3.4	2.8	2.0	3.0	3.0	1.5	3.5	2.6	1.5	3.5	2.9	1.5
EA	**1.6**	**-6.4**	**-0.2**	**2.2**	**2.3**	**5.0**	**4.3**	**2.4**	**5.0**	**4.3**	**2.0**	**5.1**	**4.2**	**2.9**	**5.2**	**4.3**	**2.5**

** Note: Year-on-year GDP growth is provided for 2019 and 2020, while quarter-on-quarter changes are provided for 2021 Q1, Q2 and Q3.*

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

	Eurostat (01/2022)						EC (11/2021)			IMF (10/2021)			ECB (12/2021)			OECD (12/2021)		
	2019	2020	2021	2021 Q2	2021 Q3	2021 Q4	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
BE	1.2	0.4	3.2	2.6	3.8	6.6	2.7	2.3	1.6	2.4	2.2	1.9	3.2	4.9	1.2	2.9	3.3	2.1
DE	1.4	0.4	3.2	2.1	4.1	5.7	3.1	2.2	1.7	2.9	1.5	1.3	3.2	3.6	2.2	3.1	2.8	2.2
EE	2.3	-0.6	4.5	3.7	6.4	12.0	4.0	3.9	2.1	3.8	4.9	2.2	4.2	6.9	3.2	4.1	6.0	3.2
IE	0.9	-0.5	2.4	1.6	3.8	5.7	2.3	3.1	1.5	1.9	1.9	2.0	2.4	3.9	2.2	2.1	2.7	1.7
EL	0.5	-1.3	0.6	0.6	1.9	4.4	0.1	1.0	0.4	-0.1	0.4	1.1	0.6	3.0	0.9	0.4	3.1	1.5
ES	0.8	-0.3	3.0	2.5	4.0	6.6	2.8	2.1	0.7	2.2	1.6	1.4	3.0	3.7	1.2	2.9	3.2	1.5
FR	1.3	0.5	2.1	1.9	2.7	3.4	1.9	2.1	1.4	2.0	1.6	1.2	2.1	2.5	1.5	2.1	2.3	1.4
IT	0.6	-0.1	1.9	1.3	2.9	4.2	1.8	2.1	1.4	1.7	1.8	1.2	1.9	2.8	1.5	1.8	2.2	1.6
CY	0.5	-1.1	2.3	2.2	3.6	4.8	1.9	1.7	1.2	1.7	1.0	1.2	2.2	2.5	1.2	:	:	:
LV	2.7	0.1	3.2	2.7	4.7	7.9	3.1	3.6	0.8	2.6	3.0	2.2	3.2	6.1	2.9	2.9	4.9	2.7
LT	2.2	1.1	4.6	3.5	6.4	10.7	3.8	3.1	2.0	3.0	2.8	2.7	4.5	5.0	2.3	3.8	3.3	2.5
LU	1.6	0.0	3.5	3.4	4.0	5.4	3.2	2.2	1.8	2.7	1.4	1.9	3.5	3.2	1.6	3.2	2.9	2.0
MT	1.5	0.8	0.7	0.2	0.7	2.6	1.1	1.6	1.5	0.7	1.8	2.0	0.7	2.1	1.9	:	:	:
NL	2.7	1.1	2.8	1.7	3.0	6.4	2.1	2.2	1.5	1.9	1.7	1.8	2.7	3.0	2.9	2.4	3.1	1.7
AT	1.5	1.4	2.8	2.8	3.3	3.8	2.7	2.5	2.0	2.5	2.4	2.0	2.7	3.2	2.3	2.9	3.0	2.3
PT	0.3	-0.1	0.9	-0.6	1.3	2.8	0.8	1.7	1.2	1.2	1.3	1.4	0.9	1.8	1.1	0.8	1.7	1.2
SI	1.7	-0.3	2.0	1.7	2.7	5.1	1.7	2.1	1.7	1.4	1.8	1.8	2.0	3.8	1.8	1.7	2.8	3.0
SK	2.8	2.0	2.8	2.5	4.0	5.1	2.8	4.3	2.2	2.4	3.0	2.1	2.8	5.7	2.4	2.6	4.1	2.5
FI	1.1	0.4	2.1	1.9	2.1	3.2	1.8	1.9	1.9	1.9	1.6	1.6	2.1	2.0	1.6	1.9	1.9	1.8
EA	**1.2**	**0.3**	**2.6**	**1.9**	**3.3**	**5.0**	**2.4**	**2.2**	**1.4**	**2.2**	**1.7**	**1.4**	**2.6**	**3.2**	**1.8**	**2.4**	**2.7**	**1.8**

* Note: Average annual rate of HICP change is provided for *2019 and 2020*, while information on annual rate of HICP change for the last month of the quarter is provided for *all quarters of 2021*.

Annex 3: RRF funding (bonds and bills) issued by the Commission so far

Table 2: NGEU bond issuance

ISIN	Issuance date	Amount (EUR bn)	Maturity date	Coupon
EU000A3KSXE1	15 June 2021	20	4 July 2031 (10y)	0%
EU000A3KTGV8	29 June 2021	9	6 July 2026 (5y)	0%
	27 September 2021	2,495		-0.487% (WAY*)
EU000A285VM2	29 June 2021	6	6 July 2051 (30y)	0,7%
EU000A283859	13 July 2021	10	4 July 2041 (20y)	0,45%
EU000A3KWCF4	14 September 2021	9	4 October 2028 (7y)	0%
	25 October 2021	2,497		-0.117% (WAY*)
EU000A3K4C42	12 October 2021	12	4 February 2037 (15y)	0.40%
	24 January 2022	2,499	4 February 2037 (15y)	0.374% (WAY*)
Total		73,491		

Source: EGOV elaboration, based on Commission relevant press releases and investors' presentation (11 January 2022) and technical data (September 2021). Additional transaction data here (Commission website)

* WAY - weighted average yield

Table 3: NGEU EU-bills issuance

ISIN	Settlement date	Duration	Maturity	Volume allotment*	WAY**
EU000A3K4C00	17/09/2021	3 months	03/12/2021	2.999	-0,73%
			03/12/2021	1.997	-0,74%
EU000A3K4C18	24/09/2021	6 months	04/03/2022	1.997	-0,73%
		6 months	04/03/2022	1.996	-0,74%
	08/10/2021	3 months	04/03/2022	1.495	-0,96%
EU000A3K4C26	08/10/2021	3 months	07/01/2022	2.996	-0,79%
	22/10/2021	3 months	07/01/2022	1.499	-0,78%
EU000A3K4C34	22/10/2021	6 months	08/04/2022	1.996	-0,75%
	05/11/2021	6 months	08/04/2022	1.499	-0,74%
		3 months	08/04/2022	1.499	-0,73%
	19/11/2021	3 months	08/04/2022	1.000	-0,73%
EU000A3K4C59	19/11/2021	3 months	04/02/2022	1.497	-0,77%
	03/12/2021	3 months	04/02/2022	998	-0,90%
EU000A3K4C67	03/12/2021	6 months	06/05/2022	1.496	-0,74%
	07/01/2022	6 months	06/05/2022	994	-0,85%
EU000A3K4C83	07/01/2022	6 months	08/07/2022	1.500	-0,72%
	21/01/2022	6 months	08/07/2022	1.000	-0,72%
EU000A3K4C75	21/01/2022	6 months	03/06/2022	1.496	-0,89%

*in millions of euros
** WAY - weighted average yield
Source: EGOV elaboration, based on Commission transaction data [here]