IN-DEPTH ANALYSIS

European Parliament

**EGOV**
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

# Economic Dialogue with the President of the Eurogroup

## ECON on 29 June 2023

*Paschal Donohoe is attending his fourth Economic Dialogue in the ECON Committee since being elected as President of the Eurogroup in July 2020. His previous Economic Dialogue took place on 2 February 2022.*

*This briefing covers the following issues: Economic situation and developments (Section 1); the Eurogroup work programme and Euro Area Recommendation (Section 2); Fiscal and economic surveillance (Section 3) and Completing EMU governance (Section 4).*

*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. Latest economic developments

**Growth in the euro area is expected to remain subdued in 2023, with the European Commission forecasting it at around 1.1% this year** (down from 3.5% in 2022) before increasing to 1.6% in 2024. In its latest staff estimates, the ECB is projecting even a slightly slower growth rate of 0.9% in 2023 and 1.5% in 2024. According to the ECB, real GDP growth in the next quarters will be driven by rising household incomes, stronger foreign demand and an easing of supply bottlenecks, amid declining inflation. In the medium-term, growth will be impacted by a tightening of credit support and the gradual phase-out of fiscal measures.

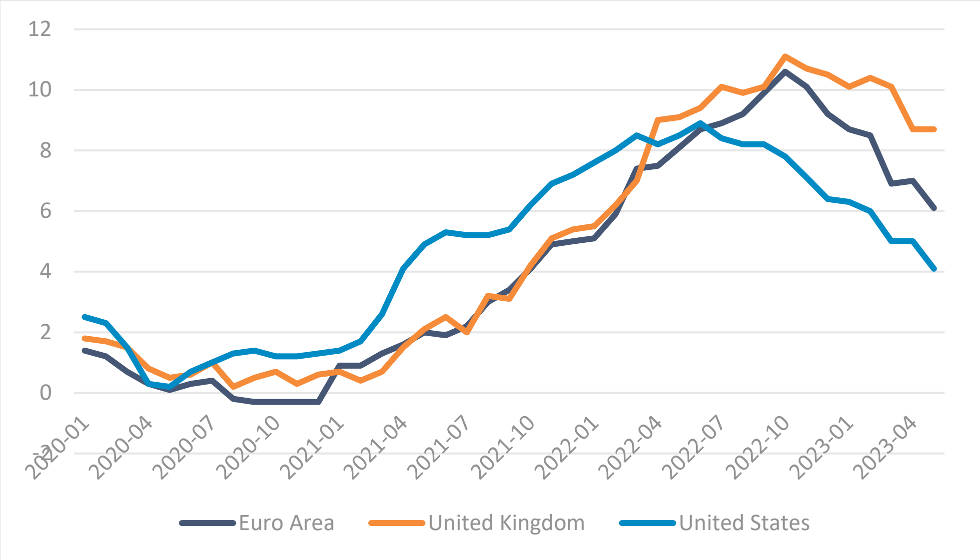
Eurostat estimates indicate that **the euro area has currently entered a technical recession** as seasonally-adjusted quarterly Gross Domestic Product (GDP) fell by 0.1% in both Q4 2022 and Q1 2023, thus marking two consecutive quarters of negative growth. Among countries that experienced a decline in GDP growth, Germany - the largest euro area economy - also entered a technical recession (-0.3% GDP growth rate). This contractions seems to have weighed on the euro area growth, contributing to push it into a recession.

**Inflationary pressures remain one of the main challenges in the euro area**. According to the ECB**, headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to fall to 5.4% in 2023,** to 3.0% in 2024 and to 2.2% in 2025 as energy prices decrease (see Figures 1 and 3).

Economic Governance and EMU Scrutiny Unit (EGOV)
Authors: Kajus HAGELSTAM, Samuel DE LEMOS PEIXOTO, Giacomo LOI, Kai Gereon SPITZER
Directorate-General for Internal Policies
PE 747.850 - June 2023

EN

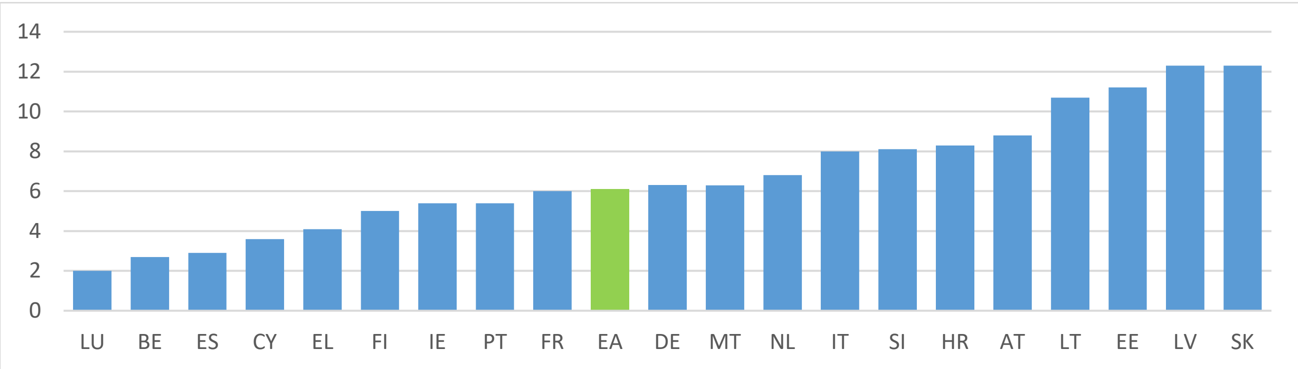
**Figure 1:** Euro area, UK and US headline inflation rates (%)[1]




Sources: Eurostat, US Bureau of Labor Statistics, Office for National Statistics.

Eurostat data show that annual headline inflation has fallen to 6.1% in May 2023 after its peak in October 2022. This seems due to a decline in its main components since April, with food, alcohol & tobacco and non-energy industrial good representing the key drivers (respectively 12.5% and 5.8%). Services prices have continued to increase, though at a slower pace (5%), while energy prices have declined by 1.8% in May 2023.

**Figure 2:** Euro area annual inflation rates (%) in May 2023




*Source: Eurostat.*

**Core inflation, despite falling to 5.3% in May 2023, is still proving to be persistent**. Underlying indicators of core inflation remain strong despite some easing, with the most recent analysis from the ECB's emphasising the role of labour market developments, particularly the growth in unit labour costs. The ECB expects core inflation to remain above headline inflation until early 2024 and, in any case, to stay above its historical average of 1.5% in the medium term.

According to the ECB, **the euro area unemployment rate, which already reached a record low level of 6.5% in April, is further forecasted to decline to a historical low of 6.3% in 2025**. In the meantime, employment is expected to grow by 1.3% this year and to continue rising, though at a smaller pace, until 2025. **Wage growth is picking up as workers seek to recoup purchasing power losses**. According to the

[1] Euro area headline inflation is measured by the Harmonised Index of Consumer Prices, for the UK headline inflation is measuredby the Consumer Price Index (CPI), whereas for the US headline inflation is measures by the seasonally adjusted Consumer Price Index for all Urban Consumers (CPI-U).

ECB, wages are expected to continue "*to grow at rates well above the historical average*". All of this seems to indicate that, **wage-sensitive sectors are starting to become the main source of inflationary pressure.**

**Table 1:** Recent euro area real GDP, headline and core inflation forecasts (annual changes)

| Source | | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| **ECB staff macroeconomic projections** (June 2023) *Revision from March 2023* | **Real GDP** | **0.9%** *↓0.1 p.p.* | **1.5%** *↓0.1 p.p.* | **1.6%** = |
| | **Headline** | **5.4%** *↑0.1 p.p.* | **3.0%** *↑0.1 p.p.* | **2.2%** *↑0.1 p.p.* |
| | **Core**[2] | **5.1%** *↑0.5 p.p.* | **3.0%** *↑0.5 p.p.* | **2.3%** *↑0.1 p.p.* |
| **IMF World Economic Outlook** (April 2023) *Revision from October 2022* | **Real GDP** | **0.8%** *↑0.3 p.p* | **1.4%** *↓0.4 p.p.* | **1.9%** = |
| | **Headline** | **5.3%** *↓0.4 p.p.* | **2.9%** *↓0.2 p.p.* | **2.2%** = |
| | **Core**[3] | n/a | n/a | n/a |
| **European Commission** (May 2023) *Revision from November 2023* | **Real GDP** | **1.1%** *↑0.8 p.p* | **1.6%** *↑0.1 p.p* | n/a |
| | **Headline** | **5.8%** *↑0.8 p.p.* | **2.8%** *↓1.0 p.p* | n/a |
| | **Core**[4] | **6.1%** *↑1.1 p.p.* | **3.2%** *↑0.3 p.p.* | n/a |
| **OECD** (June 2023) *Revision from March 2023* | **Real GDP** | **0.9%** *↑1.0 p.p.* | **1.5%** = | n/a |
| | **Headline** | **5.8%** *↓0.4 p.p.* | **3.2%** *↑0.2 p.p.* | n/a |
| | **Core**[5] | **5.4%** *↑0.2 p.p.* | **3.6%** *↑0.6 p.p.* | n/a |

*Sources:* *ECB staff macroeconomic projections*, *IMF April 2023 World Economic Outlook*, *European Commission Spring 2023 forecast*, *OECD Economic Outlook* Notes: The ECB, the European Commission, the IMF and the OECD use different measures of core inflation, see footnotes 2, 3, 4 and 5. The table shows percentage point (p.p.) changes in the estimates since the previous forecasts. An upward pointing arrow represents a positive revision in the estimate, a downward pointing arrow represents instead a negative correction.

The robustness of labour with improvements in real income, historical low unemployment rates and stagnating output point to a key contribution of unit labour costs to inflation, although they are expected to peak in 2023. **The expansion of corporate profit margins as a driver of inflation is also in the spotlight**. Members of the ECB Governing Council widely consider that "*developments in profits and mark-ups warranted constant monitoring and further analysis on an equal footing with developments in wages*". ECB President Christine Lagarde warned about a possible "tit-for-tat" dynamic stemming from a continuing growth of profit margins and strong wage growth supported by tight labour markets.

In its concluding statement of the 2023 mission on common policies for member countries of the euro area, the **IMF underlines the importance of moderate nominal wage growth and the absorption of wage increases through corporate profits** to achieve the 2% inflation target around mid-2025. According to the IMF staff, inflation expectations could in fact de-anchor should wages grow at a faster rate than expected and should profits not absorb them. This was recently reiterated by ECB Executive Board Member Isabel Schnabel "*If wages increased by more than currently projected, paired with potentially lower productivity, firms would be more likely to pass on higher labour costs to consumer prices*". For the IMF, given the uncertainty

2 The ECB's measure of core inflation excludes all food and energy.

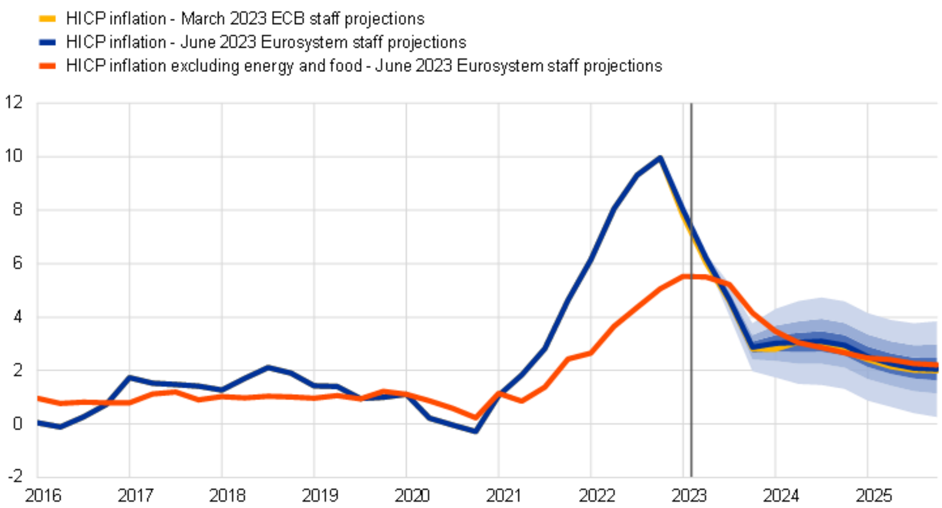
3 The IMF does not provide estimates of projected core inflation. It calculates it as the *"percent change in the consumer price index for goods and services, but excluding food and energy (or the closest available measure). For the euro area (...), energy, food, alcohol, and tobacco are excluded"*.

4 The European Commission's measure of core inflation excludes unprocessed food and energy.

5 HICP excluding food, energy, alcohol and tobacco.

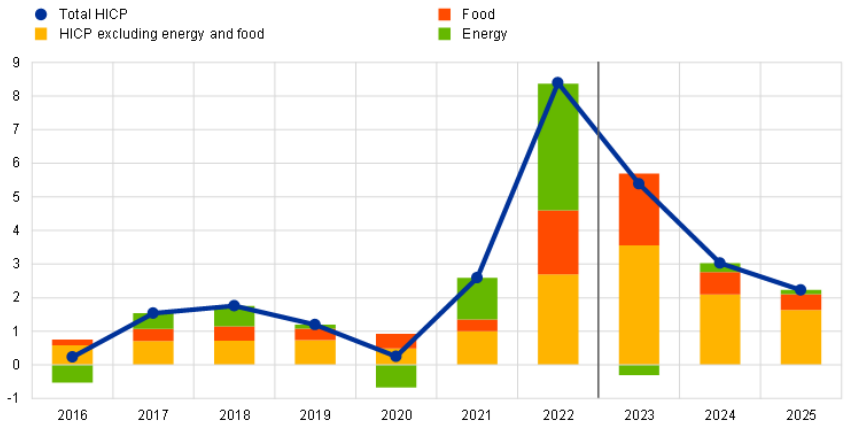
surrounding inflation developments, the ECB should pursue a longer-term tight monetary stance. Figure 4 provides for an overview of the evolution of key inflation components.

**Figure 1:** Euro area HICP inflation (annual percentage changes, percentage points)




*Source:* [ECB.](#) Notes: The vertical line indicates the start of the current projection horizon. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICP inflation will fall within the respective intervals.

**Figure 2:** Euro area HICP inflation - decomposition into the main components (annual percentage changes, percentage points)

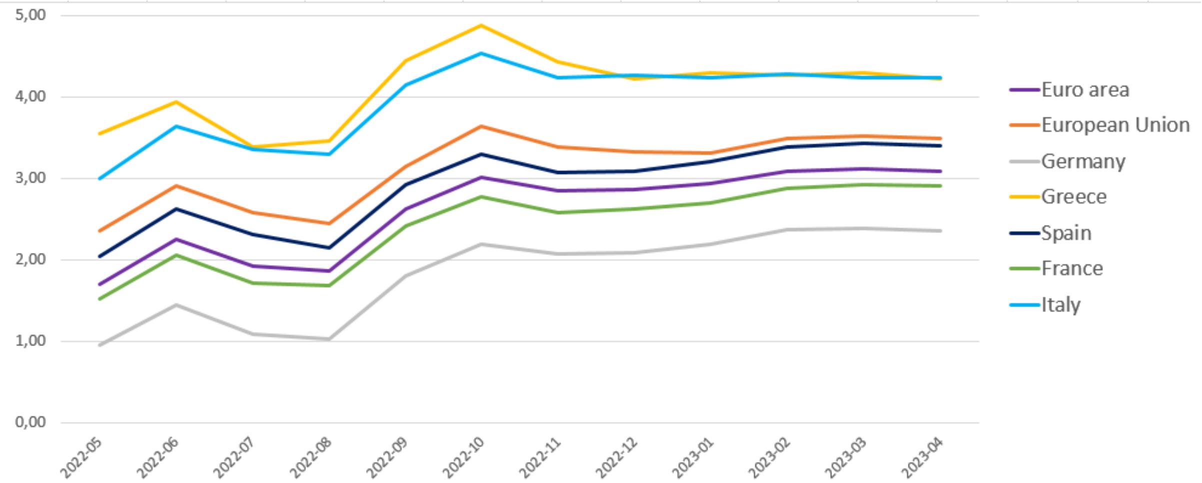



*Source:* [ECB.](#) Notes: The vertical line indicates the start of the current projection horizon

Recent episodes of banking turmoil in the US and in Switzerland shed a light on **potential implications of monetary policy decisions on bank funding conditions and portfolio management**. While euro area banks have shown resilience, policymakers have reiterated that there should be no complacency. According to the **Financial Stability Review**, monetary tightening could unveil a number of threats to financial stability, including **corrections in commercial real estate markets, revaluation and adjustments in equity markets as well as movements of sovereign and corporate bond markets**. For this reason, the IMF has recently called for a broad implementation of macroprudential tools, particularly to address the de-leveraging of non-bank financial instituions (NBFI), with a view of reducing systemic risks.The ECB's latest euro area bank lending survey (BLS), highlighted **an unexpectedly strong tightening of credit standards in the first quarter of 2023** to the highest level since 2011, which is expected to dampen credit growth for households and corporates. Instead, **the impact on banks' profitability is so far positive as interest rate hikes led to higher net interest margins.** However, the ECB expects interest rates on deposit to increase as excess liquidity dries up. Furthermore, it has indicated that rising funding costs and a deterioration of asset quality could negatively affect banks' profitability.

In its May **Economic Bulletin**, the ECB noted that **despite the episodes of banking distress in March, sovereign bond yields remained overall unchanged with stable spreads** (also see Figure 5 based on Eurostat data). This remains an area that the Eurogroup needs to keep in focus, as recognised by President Donohoe in the press conference following the Eurogroup meeting of 15 June 2023. The increase in interest rate could be a concern for governments by raising their borrowing costs. In his view, this should not lead to a diminished ambition in the fight against inflation but rather to a reduction in governments borrowing to also avoiding feeding into further inflation.

**Figure 5:** Selected long term government bond yields in comparison (May 2022 - April 2023; yield in %)




Source: Eurostat

*Further reading:*

- ANNEX 1 for latest GDP figures for all EA Member States.
- ANNEX 2 for latest inflation figures for all EA Member States.
- EGOV briefing: EU economic developments and projections (June 2023)
- EGOV briefing: Euro area monetary policy: quarterly overview, June 2023

## 2. Euro Area Recommendation 2022 and 2023

The **Euro Area Recommendations (EAR**) assesses the economic policy of the euro area as a whole with the goal of **providing orientations to Member States on issues of "common concern**" relevant for the functioning of the entire EMU (e.g. common fiscal stance, completion of the Banking Union).

On 22 November 2022, the Commission published its recommendation for a Council recommendation on the 2023 economic policy of the euro area as part of the 2023 European Semester autumn package. Following approval in ECOFIN[6] on 17 January 2023 and endorsement by leaders in the European Council in March 2023, the 2023 EAR was published in the Official Journal of the EU on 23 May 2023.

The 2023 EAR focuses on five areas: (a) fiscal policies and inflation, (b) structural policies (green and digital transitions, energy resilience and EU's energy independence, implementation of NRRPs), (c) labour markets (loss in purchasing power, promotion social dialogue and investments in skills), (d) internal market (solvency of companies, balancing support in energy crisis with level playing field, CMU), and (e) financial markets (tightening of financial conditions, completion of the Banking Union and digital euro).

**The 2023 EAR is the first to be issued since the outbreak of the war in Ukraine**. Consequently, it distances itself from the previous EARs as it takes stock of the new economic and geopolitical environment. It addresses spikes in energy prices, a cost of living crisis and mounting inflation, reiterating the need to maintain a level playing field within the internal market and to avoid a wage-price spiral. The EAR recognises that the deterioration of the economic outlook during the energy crisis differs from the pandemic shock in the heterogeneity of its impact, leading to divergences and potential fragmentation across the euro area.

The shift from recovery to managing the energy crisis notably translates into a **pivot in the recommended fiscal stance, with the EAR calling for targeted measures** rather than a blanket approach. The novel focus also coincides with a lower emphasis on previous EAR themes (e.g. taxation, role of national institutional frameworks) to leave room instead to more pressing recommendations on the adequacy of fiscal policy to tame inflation, response to the energy crisis and mitigation of workers' loss of purchasing power.

### 2.1 Implementation of the 2022 EAR

The EG, in light of its ***de facto* coordination role of euro area policies**, can be considered as the body in charge of enforcing the EAR, e.g. via its work programmes and thematic discussions[7].

The summary of debates in the Eurogroup on relevant policy areas can thus be seen as an indirect tool to evaluate the implementation of the 2022 EAR. Finance ministers were called to address new challenges brought by the Russian war in Ukraine. **The surge in inflation and the energy crisis, in tandem with the need to cushion their impacts on citizens and companies alike, led to a re-shuffle in policy priorities**, **derailing the implementation of the 2022 EAR** (see Table 2 below). The urgency of these challenges changed the policy debate towards energy independence, protection of living standards and financial stability. This reprioritisation meant that the **EG already started to discuss how to address these new challenges rather than focusing on the full implementation of the 2022 EAR**.

In particular, the EG progressively **intensified discussions on fiscal measures** to tackle inflation and rising energy prices, particularly to support vulnerable households and corporates. Nevertheless, the nature of the conclusions, especially in the early days of the energy crisis, remained quite general.

---

6 For a comparison between the Council and the Commission approaches please refer to EGOV "comply or explain" briefing.

7 The Council recommends "*euro area Member States take action, individually, including through the implementation of their recovery and resilience plans, and collectively within the Eurogroup*". This seems as a mandate for Member States to consider the EAR as a matter of common concern and points to a coordination and monitoring role by the Eurogroup.

The **completion of the Banking Union and the digital euro featured prominently** on ministers' agenda in 2022 (see more in Section 4). In the first half of the year, the EG focused intensively on its political commitment to agree on *a "step-wise and time-bound work plan on all outstanding elements"* to achieve simultaneous progress on the 4 Banking Union workstreams[8]. While the EG ultimately failed to reach consensus on the draft work plan in June, ministers still managed to issue a confined mandate for the Commission to table proposals in the area of bank crisis management and deposit guarantee schemes (CMDI) [9].

**Table 2**: Overview of EAR discussions in the Eurogroup in 2022

| | Eurogroup discussions in 2022 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug[10] | Sep | Oct | Nov | Dec |
| Fiscal policies | | | | | | | | | | | | |
| Green and digital agendas | | | | | | | | | | | | |
| National frameworks and institutions | | | | | | | | | | | | |
| Tax issues | | | | | | | | | | | | |
| Education, training and labour markets | | | | | | | | | | | | |
| Social policies | | | | | | | | | | | | |
| Internal market and divergences | | | | | | | | | | | | |
| Banking Union | | | | | | | | | | | | |
| Financial stability | | | | | | | | | | | | |
| Fraud, corruption and AML | | | | | | | | | | | | |
| CMU | | | | | | | | | | | | |
| EMU and int'l role of the euro | | | | | | | | | | | | |

*Source: EGOV elaboration. For further details please refer to The Euro Area Recommendation Dashboard here. Note:* A green cell implies that a discussion was held at the corresponding Eurogroup meetings. The reference date for Eurogroup action is January 2022 to December 2022; nevertheless, the final reference date for the 2022 EAR is April 2022 (date of publication in the Official Journal - OJ

[8] I.e. (i) the review of the bank crisis management framework; (ii) common protection for depositors; (iii) home-host integration; (iv) regulatory treatment of sovereign exposures.

[9] For a more detailed overview on the progress on the Banking Union, please see separate EGOV document.

[10] No Eurogroup meetings were held in August

C 153, 7.4.2022). The split of EAR in subcategories aims to better categorise Eurogroup action and is based on EGOV assessment, taking into account the various subjects reflected in each EAR. Eurogroup meetings in inclusive format are also taken into account

**Box :** Eurogroup work programme until March 2024

The Eurogroup priority areas until March 2024 are broadly in line with those identified in the second half of 2022 and for the first semester of 2023. The Eurogroup work programme until March 2024 will continue to focus on the three pillars that have guided the work of the Eurogroup since the second half of 2022:

**Fiscal and economic policy coordination:** The EG commits to coordinate fiscal policies, also against the backdrop of monetary policy normalisation, to promote a consistent policy mix. It will strive to achieve a more prudent fiscal stance, promoting the withdrawal of energy support measures, starting with the less targeted, and continue to coordinate action in this area during the winter to avoid competitive distortions. The EG indicates that it will continue to discuss the adequate euro area fiscal stance to avoid undermining monetary policy, particularly by means of coordinating draft budgetary plans. It also seeks to monitor inflation developments, especially core, and differentials among countries, its impact on public finance and uneven energy price shocks. It will also continue holding thematic discussions, e.g. on euro area labour market developments.

**Deepening the EMU:** The EG will continue to address the state of the Banking Union and *"ensure progress continues to be made in line with the June 2022 statement"* while seeking to identify other measures to strengthen other elements and work towards completion. It also commits to monitor developments in financial markets. In its inclusive format, it will also work to develop a medium-term strategic vision for the future of the European capital and financial markets, with a view of involving both policymakers and market participants. In laying down this commitment, it indicates that it will assess gaps in the legal framework to identify the priorities for the next legislative cycle.

**The euro as a digital and international currency**: The EG will continue working on the digital euro and, should the ECB's Governing Council decide to move forward with the next phase of the project, the EG indicates its intention to continue engaging on the political dimensions. It also reiterates the commitment of the Eurogroup to follow-up on the workstream on a stronger international role of the euro and monitor exchange rate developments in 2023. As financial stability and global economic developments remain key priorities, the EG seeks to contribute to international discussions, e.g. G7 meetings, by coordinating the euro area's position. It will also continue to assess the plans and actions of non-euro area Member States to adopt the euro.

Relative to previous work programmes, the time horizon has been expanded by three more months until March 2024 with a view of facilitating longer-term planning

Another tool to assess the implementation of the 2022 EAR is the **retrospective qualitative analysis from the Commission Staff Working Document (SWD)** accompanying the 2023 EAR proposal. Overall, that document notes progress in the implementation of recommendations, which however varies across policy areas. Particularly, in spite of progress on fiscal recommendations, it laments lower levels of implementation on the sustainability of public finances. It also identifies labour market, social policy and tax reforms as areas with lower implementation. It notes the **positive role of national recovery and resilience plans (RRPs) in covering recommendations on fiscal policy and structural reforms**, finding that the RRF contributes little to the issues of private indebtedness, insolvency frameworks, and financial stability.

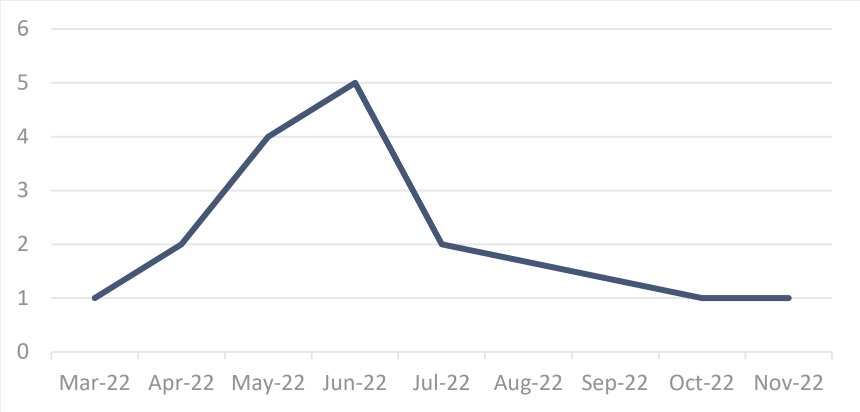
## 2.2 Monitoring the work of the Eurogroup

There is **no way to measure the direct and indirect effects of the coordination** that takes place at the Eurogroup. Following a similar methodology to the assessment of the EAR implementation, it could be possible to track concrete outcomes from the Eurogroup discussions against the external communication.

By analysing the remarks of President Donohoe after each Eurogroup meeting from February 2022 (date of his latest appearance in ECON) until June 2023, the emphasis placed on the frequent agreements and commitments taken by finance minister in their areas of coordination is notable. After roughly 70% of these meetings, President Donohoe has expressed satisfaction with the outcome of the discussions that have been defined, among others, as "constructive", "productive", "very worthwhile" or even "historic".

The lack of concrete deliverables against most of these commitments represents an obstacle to the scrutiny of the effectiveness of these measures. However, the momentum around the completion of the Banking Union in the first half of 2022 allows to grasp the extent to which the coordination and the agreement across ministers is conducive to the desired outcome. As previously discussed, the 16 June 2022 was supposed to be a landmark moment for Banking Union completion by agreeing on a common blueprint for progress. Figure 6 shows the increased emphasis on the positive outcome of discussions around this meeting.

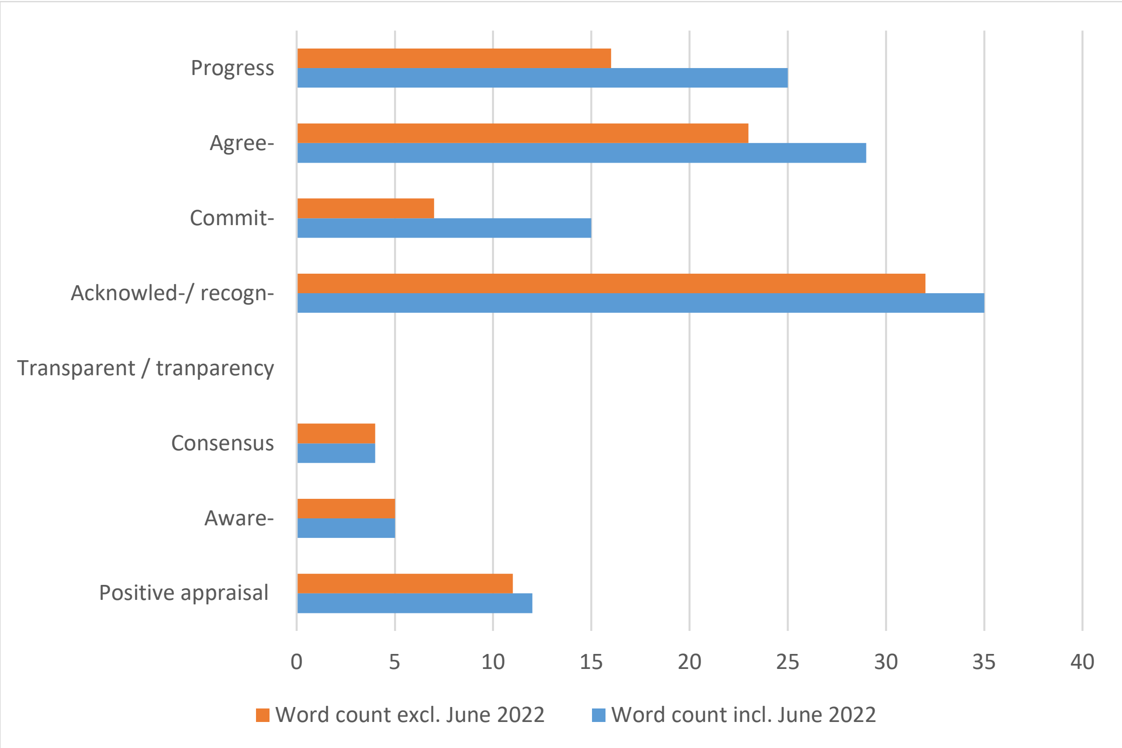
**Figure 6:** Frequency of positive appraisals on Eurogroup meetings in President Donohoe's remarks




Source: EGOV based on the remarks of President Donohoe after Eurogroup meetings available on the Eurogroup document register.

Nevertheless, from a scrutiny perspective, it is clear that the Eurogroup did not achieve the level of ambition that it had set for itself, (i.e. fallen short of its commitment in this area). In June 2022, it limited itself to providing a mandate for Commission to make legal proposals only in one of the four work streams (i.e. crisis management). External communication by President Donohoe seems to have however toned down the impasse to emphasise instead what he considered as a success of these discussions.

**Figure 7:** Recurring words by President Donohoe after Eurogroup meetings (Feb 2022 - Jun 2023)




Source: EGOV based on the remarks of President Donohoe after Eurogroup meetings available on the Eurogroup document register. Notes: the figure covers the period from February 2022 until June 2023, including remarks following regular meetings, meetings in inclusive format and informal videoconferences. Positive appraisal is a dummy variable equal to one if the remarks contained one or more expressions of satisfaction with the outcome of the meeting.

Figure 7 compares the use of recurring words in Donohoe's remarks when one includes (excludes) the remarks after the June 2022 meeting. The results are quite stark in showing a clear communication effort aimed at framing the meeting as a milestone. Words related to agreement and progress are overemphasised in the June 2022 speech by Donohoe. Similarly, references to commitments remarks following the June 2022 meeting alone almost double the amount of times similar words were used in the remaining 16 meetings taken into consideration.

Finally, there has been no **references to transparency since February 2022, which may signal a lack of follow-up on the recommendations by the European Ombudsman** (for further details please refer to the EGOV briefing on "The role (and accountability) of the President of the Eurogroup").

***Further reading:***

- EGOV table: *2023 Recommendations on the economic policy of the Euro Area: A comparison of Commission and Council texts (the 'comply or explain' principle)*
- EGOV screening: *Council recommendations on the Economic Policy of the Euro Area*
- EGOV screening: *Implementation of the 2022 euro area recommendations*
- EGOV database: *The Euro Area Recommendation Dashboard*

# 3 Surveillance under the European Semester

## 3.1 Fiscal policy recommendations and coordination

The European Commission in its 2023 European semester spring package confirmed that the **general escape clause of the SGP will be lifted in 2024**. As the EU transitions out of the period in which this clause was invoked due to the severe economic downturn caused by the COVID-19 pandemic, the Commission is recommending to the Council to provide **tailored fiscal policy recommendations for each Member State**: the Commission has proposed country specific **both quantitative and qualitative fiscal targets for 2024.**

For the **countries that have achieved their medium-term budgetary objectives** based on the Commission's 2023 Spring Forecast, the recommendation is to **maintain prudent fiscal positions in 2024**.

**All other Member States are advised to pursue cautious fiscal policies**, specifically by restricting the increase in nationally financed net primary expenditure. Pending agreement on reforms to the EU's economic governance framework, current legislation remains in force. Notably, Member States yet to achieve their medium-term budgetary objectives are expected to make annual fiscal adjustments equivalent to 0.5% of GDP.

However, the Commission's reform proposals have influenced the 2023-24 fiscal monitoring cycle, like the focus on a single operational indicator ("nationally financed net primary expenditure"), derived both from the structural balance indicator and fiscal sustainability considerations. Against this background, **the fiscal guidance for 2024 is articulated in terms of recommended increases in nationally financed net primary expenditure, differentiated based on each Member State's fiscal sustainability challenges.**

**Member States should improve public finance quality and composition**, protect nationally financed investment, and effectively use the RRF and InvestEU for green and digital transitions and economic and social resilience. Costs of emergency support for May 2023 floods in Italy will be considered one-off and temporary.

**The Commission is supportive of a balanced tax mix in EU Member States**, fighting aggressive tax planning, and improved compliance to promote fair treatment of taxpayers and fund public services. It also considers that shifting some tax from labour to environment and property, considering distributional impacts, would support green transition and sustainable growth.

**Fiscal measures responding to higher energy prices should be phased out in 2023**. Targeted support for vulnerable groups and businesses may be needed if energy prices rise again, but the Commission underlines that broad measures are less effective. Renewed support should focus on vulnerable groups and businesses, be fiscally affordable, and maintain incentives for energy efficiency.

However, the ECOFIN when approving the fiscal recommendations on 16 June 2023, **introduced a more flexible timeline for winding down energy support measures by stating that Member States should do it as soon as possible in 2023 and 2024** (the Commission proposed 2023 as deadline). It also specifies the possibility of **continuing or adding new targeted support measures** focused on vulnerable households and firms, in case of renewed energy price increases. See separate EGOV table on implementation of the comply or explain principle in the Council.

One may note that the **ECB President called on governments** to "*roll back the related support measures promptly and in a concerted manner to avoid driving up medium-term inflationary pressures, which would call for a stronger monetary policy response*". While **the IMF**, in its concluding statement of the 2023 mission on the euro area[11] **underlined that, given current economic conditions, it is advisable to adopt a strict fiscal policy.** Doing so, according to the IMF, would help to mitigate inflationary pressures, which would in turn reduce the likelihood of financial market disruptions and limit upward pressure on interest rates. Countries with high debt and deficits should pay particular attention to reducing fiscal deficits in order to rebuild fiscal space. To achieve this, windfalls in revenue should be saved, and **energy support measures that were introduced over the past year should be allowed to lapse.** If energy prices increase significantly in the future, any new support measures should be targeted towards the most vulnerable populations to aid in consolidation efforts and strengthen incentives for energy conservation.

In October 2022, following recommendations alreday made by OECD and IMF, the Euro group concluded that: (...) "*given the strong spill-overs in the European energy markets, **we will coordinate our measures to preserve the level playing field and the integrity of the single market**, including by refraining from harmful tax adjustments. Close coordination of economic policies also in a broader sense is needed to address the challenges we face. In particular, we should seek to **avoid the energy price shock to develop into second round effects and a more persistent acceleration of inflation dynamics** which would damage our economies. We therefore seek to refrain from policies that would add to inflationary pressures.(...) Targeted and temporary policies that do not distort the single market may be needed to help firms exposed to high energy prices to transition to reduced exposures, with those making windfall revenues from high energy prices contributing their share in solidarity with the rest of society*."

In March 2023 the Euro group concluded that it **will continue to phase out emergency support measures**: "*[...]. Absent renewed price shocks, we will continue to phase out energy support measures, which would also contribute to reducing government deficits. Looking forward, we are determined to continue our coordination efforts ahead of next winter. To the extent further efforts are needed, we will continue to protect the most*

[11] A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'). Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

*vulnerable households and viable firms, while preserving incentives to limit energy consumption and increasing energy efficiency*."

According to the ECB's June 2023 projections, e**uro area governments enacted significant fiscal support in response to the energy crisis and high inflation**, estimated at around 1.6% of euro area GDP in 2023 (down from 1.9% in 2022[12]).

Looking at the figures shown in Table 3 below it is not clear whether the coordination of the Eurogroup has achieved the stated objectives of phasing out the temporary emergency measures and keeping them sufficiently targeted. These figures may also explain why the Council/Eurogroup watered down the 2023 fiscal CSRs as proposed by the Commission in this respect. For example, the higest budget support in 2023 is expected for Slovakia (+2.0%) and Germany (+1.9%).

**Table 3**: Fiscal support measures in Euro Area Member States in order to mitigate high energy prices

| | 2022 | 2023 | 2022 + 2023 | 2024 | 2022 + 2023 + 2024 | 2022 | 2023 | 2022 + 2023 | 2024 | 2022 + 2023 + 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Change in total net budgetary cost of energy measures*[13] | | | | | *Change in net budgetary cost of* ***targeted*** *energy support measures* | | | | |
| **BE** | 0.8 | -0.5 | 0.3 | -0.4 | -0.1 | 0.2 | -0.1 | 0.1 | -0.1 | 0.0 |
| **BU** | 0.9 | -0.7 | 0.2 | -0.7 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **DE** | 1.2 | 0.7 | 1.9 | -1.6 | 0.3 | 0.3 | 0.2 | 0.5 | -0.3 | 0.2 |
| **EE** | 0.7 | -0.6 | 0.1 | -0.3 | -0.2 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| **IE** | 0.5 | -0.1 | 0.4 | -0.3 | -0.1 | 0.2 | -0.1 | 0.1 | -0.1 | 0.0 |
| **EL** | 2.0 | -2.3 | -0.3 | -0.2 | -0.5 | 0.3 | -0.4 | -0.1 | 0.0 | -0.1 |
| **ES** | 1.5 | -1.0 | 0.5 | -0.7 | -0.2 | 0.5 | -0.2 | 0.3 | -0.2 | 0.1 |
| **FR** | 0.8 | 0.1 | 0.9 | -0.8 | 0.1 | -0.1 | 0.1 | 0 | -0.2 | -0.2 |
| **HR** | 1.6 | -0.1 | 1.5 | -1.3 | 0.2 | 0.3 | -0.1 | 0.2 | -0.2 | 0.0 |
| **IT** | 2.2 | -1.5 | 0.7 | -1.0 | 0.6 | 1.2 | -0.6 | 0.6 | -0.7 | -0.1 |
| **CY** | 0.6 | -0.2 | 0.4 | -0.4 | 0.0 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| **LV** | 1.4 | -0.5 | 0.9 | -0.1 | 0.8 | 0.5 | -0.4 | 0.1 | -0.1 | 0.0 |
| **LT** | 1.3 | -0.7 | 0.6 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **LU** | 0.5 | 0.6 | 1.3 | -0.6 | 0.7 | 0.4 | 0.3 | 0.7 | -0.6 | 0.1 |
| **MT** | 1.9 | -0.8 | 1.1 | -0.2 | 0.9 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| **NL** | 0.6 | 0.5 | 1.1 | -1.1 | 0.0 | 0.1 | 0.4 | 0.5 | -0.5 | 0.0 |
| **AT** | 1.5 | 0.3 | 1.8 | -1.7 | 0.1 | 0.2 | 0.2 | 0.4 | -0.4 | 0.0 |
| **SL** | 1.0 | -0.2 | 0.8 | -0.9 | -0.1 | 0.6 | -0.5 | 0.1 | -0.1 | 0.0 |
| **SK** | 0.2 | 1.8 | 2.0 | -2.0 | 0.0 | 0.2 | -0.2 | 0.0 | 0.0 | 0.0 |
| **FI** | 0.1 | 0.2 | 0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 |

Source: COMMISSION STAFF WORKING DOCUMENT: Fiscal Statistical Tables providing background data relevant for the assessment of the 2023 Stability or Convergence Programmes. Yellow for all figures above 0 and below 0.5 and Red for all figures equal or above 0.5.

[12] Taking into account windfall taxes on energy producers and suppliers, amounting to 0.2% of GDP, the estimated net budgetary cost of energy support measures reached 1.2% of GDP in the EU in 2022, according to the Commission spring 2023 forecast

[13] Energy support measures less revenue from nex taxes (taxes and levies on) widfall profits from energy producers.

***Further reading:* -** EGOV briefing: *Implementation of the Stability and Growth Pact under exceptional times*

## 3.2 Macro-economic imbalances

According the the latest in-depth reviews under the Macroeconomic Imbalance Procedure macroeconomic vulnerabilites mainly stem from the uncertainty related to high inflation, which can negatively impact competitiveness, tighten financial conditions potentially trigerring price corrections notably in the housing market and lead to adverse distributional consequences.

Against this background, the latest country specific findings by the Commission are as follows:

*Member States experiencing excessive imbalances:*

- *Greece* has excessive imbalances and continues to face vulnerabilities related to high government debt and non-performing loans. While the government debt-to-GDP ratio has improved (but remains the highest in the EU), non-performing loans remain high and weigh on banks' profitability and lending capacity. Further efforts are needed to improve external balances and reduce non-performing loans. The implementation of the RRP presents an opportunity to address remaining structural weaknesses.
- *Italy* has consistently exhibited excessive imbalances since 2014, with vulnerabilities related to high government debt and weak productivity growth persisting despite some improvements. Low productivity growth has impacted banks' balance sheets and slowed down government debt deleveraging. The government has implemented measures to support the financial sector, and non-performing loans have significantly declined, but banks are still exposed to the sovereign. The implementation of the RRP is a key policy priority, but additional efforts are needed in taxation, fiscal framework, pension systems, demography, labor market, and energy.

*Member States experiencing Imbalances:*

- *Cyprus:* After facing excessive imbalances until 2022, Cyprus is currently experiencing imbalances. Although vulnerabilities related to private, government, and external debt have decreased, they still remain a concern.
- *Hungary:* Imbalances have emerged in Hungary, and there is a risk that they may become excessive in the future if urgent policy actions are not taken. The overall outlook is tilted towards the downside.
- *Germany, Spain, France, the Netherlands, Portugal, and Sweden*: These countries continue to experience imbalances. However, in Germany, Spain, France, and Portugal, vulnerabilities are diminishing to the extent that if these positive trends continue next year, a decision of no imbalances may be reached.
- *Romania:* Among the countries with imbalances, Romania faces downside risks, and imbalances may become excessive in the future if immediate policy actions are not implemented.

*Czechia, Estonia, Latvia, Lithuania, Luxembourg*, and *Slovakia* are not found to be experiencing imbalances as vulnerabilities seem overall to be contained at present.

# 4. Completing the Economic and Monetary Union

## 4.1 Review of the EU economic governance framework

On 26 April, the Commission presented its **legislative proposals for the EU economic governance reform** compromising three legal texts:

- Proposal to repeal and replace the current preventive arm of the SGP;
- Proposal amending the Regulation on the corrective arm of the SGP; and
- Proposal amending the Directive on the requirements for budgetary frameworks of Member States

These legal proposals would *de facto* also affect the application of some of the other EU economic governance legal acts in force today[14].

Below certain **core elements of the Commission's proposal are highlighted**[15]**:**

- **Debt Sustainability Analysis (DSA)** - Compared to the existing framework, the DSA will serve as the main criterion to distinguish Member States' indebtedness for the purposes of both the preventive and the corrective arm. The Commission will distinguish between: (1) Member States with debt above 60% of their GDP or with deficit exceeding 3% of their GDP, for which the Commission will propose a **technical trajectory** to ensure that "*debt is put on a plausibly downward path or stays at prudent levels, and that the deficit remains or is brought and maintained below 3% of GDP*"; and (2) Member States with public debt below 60% of GDP and deficit below 3% of GDP, for which the Commission would provide **technical information** to ensure headline deficit remains below 3% of GDP.
- **Medium-term fiscal-structural adjustment plans (MTFSAP)** - Each of those Member States for which the Commission proposed a technical trajectory will have to submit medium-term fiscal-structural adjustment plans, outlining numerical targets to achieve debt reduction by the end of the assessment period. It is also worth noting that the technical trajectory proposed by the Commission and against which the MTFSAP is assessed demands more criteria compared to the MTFSAP. Specifically, for countries that exceed either the 3 percent deficit or the 60 percent debt criteria, the growth rate of net expenditures should be on average lower than the medium-term output growth.
- **Technical dialogue** - For the purpose of ensuring compliance, the legal proposal envisages that Member States engage in a non-public technical dialogue with the Commission before submitting their MTFSAP.
- **Net public expenditure** - While the initial plan is based on the Commission's DSA, the sole indicator in place for monitoring compliance will be net public expenditure targets. The Commission would establish a control account to track the cumulative deviations from the expenditure path.
- **Extension of adjustment plan -** The minimum length of the MTFSAP would be four years but could be extended by three more years to ensure a more gradual debt reduction subject to the **commitment to investment and reforms** as assessed by the Commission and endorsed by the Council. The plan could

[14] The Proposal to repeal and replace the current preventive arm of the SGP has a connection with Regulation No 1176/2011 to prevent and correct macroeconomic imbalances: if a Member State does not fulfil its commitments regarding reforms and investments outlined in its medium-term fiscal-structural plan to address the CSRs relevant to the Macroeconomic Imbalances Procedure, the Council may issue a recommendation declaring that an excessive imbalance exists. Moreover, when providing an opinion on the draft budgetary plans submitted pursuant to Article 6 of Regulation No 473/2013, the Commission should assess if the DBPs are consistent with the net expenditure paths pursuant to this proposal.

[15] See also EGOV briefing on "*Enhanced political ownership and transparency of the EU economic governance framework in light of the European Commission's reform proposal*"

be revised before expiry in case of a change in government, though subject to specific safeguards to prevent lower ambition in the fiscal adjustment effort or back loading.

- **Annual reporting** - Member States would be obliged to submit annual reports on implementation (replacing current Stability or Convergence Programmes and National Reform Programmes).
- **Missions to Member States** - The Commission foresees missions to Member States to ensure a permanent dialogue between the Commission and the concerned Member State, and monitor compliance with the framework.
- **Escape clauses** - The Commission proposes to codify the existence of **two escape clauses**, which would be subject to Council's endorsement and specific time limits decided by Member States. A "country-specific escape clause" would allow Member States to tackle exceptional circumstances outside government's control, whereas the "general escape clause", would allow for deviations in case of severe economic downturns that affect the entire Euro Area or the EU.
- **Excessive deficit procedure (EDP)** - The "deficit-based" EDP would remain unchanged whereas "**more automaticity" is proposed for "debt-based" EDPs**, instead of the current 1/20$^{th}$ annual debt reduction rule. A key factor to be considered for launching a procedure would be the "*degree of debt challenge*", i.e. whether the Member State departing from is net expenditure path has substantial debt challenges, as assessed by DSA. For the years when deficit exceeds or is expected to exceed 3%, the proposal also foresees a minimum annual adjustment of at least 0.5% of GDP.
- **Sanctions** - The financial sanctions that can be imposed in case of deviations are proposed to be more granular to facilitate their enforcement.
- **Independent Fiscal Institutions (IFIs)** - The new architecture would expand the role of national IFIs into the reformed EU fiscal and economic surveillance framework. The proposal outlines some minimum standards for IFIs' independence, resources and tasks (e.g. providing opinions to their Member States, issuing or endorsing macroeconomic and budgetary forecasts, monitoring compliance, taking part to parliamentary hearings). National governments would also have to "comply or explain" deviations from IFI's recommendations.
- The proposal for amending the Directive for national budgetary frameworks would require, to the extent possible, **the assessement of macro fiscal risks from climate hazards** and the implications on public finance of climate mitigation and adaptation policies and reporting on disaster and climate related contingent liabilities.
- **European Fiscal Board (EFB)** - While the Communication indicated that the Commission would have *"reconsidered the mandate and role of the European Fiscal Board"*, the Commission did not propose any changes to the role of the EFB. In the explanatory memorandum to the preventive arm proposal, the Commission indicates that it would "*explore how to strengthen the role of the European Fiscal Board, while preserving the surveillance role conferred on the Commission by the EU*"[16].

The legislative package introduces some **additional safeguards**, namely:

[16] The memorandum also indicates some potential new tasks, including "informing the periodic evaluation of the reformed framework and providing assessments on the implementation of central elements of the reformed governance system" as well as advising Council on the decisions surrounding the activation/extension of the general escape clause.

- Mandating the public debt ratio to be lower by the end of the period covered by the plan than at the start of the period;
- Introducing a minimum fiscal adjustment of 0.5% of GDP per year as a benchmark for deficits (expected to be) in excess of 3% of GDP; however the legislative proposal does not specify the indicator to which the half percent adjustment pertains, leading to ambiguity;
- Requiring that, in case of an extended fiscal plan, most of the adjustment would be delivered during the first four years covered.
- Forbidding revised fiscal plans from allowing back loading or lowering of the fiscal adjustment effort.

Speaking at the Brussels Economic Forum in May, **Paschal Donohoe** **reacted** to the Commission's publication of its legislative package on economic governance reform: "*This is a complex project but agreeing on an improved framework is vitally important. There are again areas where there are disagreements across the member states but similar to the banking proposals, these gaps can be closed. The proposed changes go a long way in the right direction – the framework is simpler, more risk based with a greater focus on the medium-term. This in turn will make implementation easier and enforcement more transparent. The proposals also clearly acknowledge the need for investment, growth and for debt sustainability. We can all reach agreement in time for 2024.*"

In its concluding statement of the 2023 mission in the euro area, **the IMF staff** **considers** the Commission's legislative proposal for economic governance reform as appropriate and able to promote a differentiated, risk-based medium-term fiscal adjustment. In particular, it underlines that the operational target of net primary expenditure simplifies the framework and allows countercyclical automatic stabilizers to function. However, it considers critical to implement the framework cautiously and avoid relying on overly optimistic growth estimates. The possibility of extending adjustment periods in return for growth-enhancing reforms and investment is positive. In this context, it underlines "*an Independent European fiscal council could add credibility to the process.*" Finally, "*An EU-wide fiscal capacity for macroeconomic stabilization and provision of public goods would also strengthen the framework.*"

On 15 June, eleven EU Finance Ministers[17], led by the German Finance Minister, published a **joint article** emphasising the need for a reform of the European economic governance framework to effectively reduce the public debt that has accumulated in the Eurozone in recent years due to the Covid-19 pandemic and energy crisis. **The ministers suggest that the reform of the SGP should establish reliable, transparent, easily measurable, and binding budgetary rules with quantitative criteria that apply to all EU countries to promote budget consolidation and growth**. They caution against making reform and spending decisions too far in advance in the context of an uncertain environment and emphasise the need to preserve the right balance between the powers of the European Commission and the Member States.

**Next steps:** As regards the timetable, the Commission stresses that Member States and the Commission should reach a consensus on the reform orientations ahead of Member States' budgetary processes for 2024.

***Further reading:*** EGOV briefing: *Enhanced political ownership and transarency of the EU economic governance framework*

[17] In addition to the German finance minister, the joint article is co-signed by finance ministers of the Czech Republic, Austria, Bulgaria, Denmark, Croatia, Slovenia, Lithuania, Latvia, Estonia and Luxembourg

## 4.2 Completion of the Banking Union

In 2016, the **Council** agreed a roadmap to complete the Banking Union. Work towards a European Deposit Insurance System (EDIS) was an integral part of it. In spring of 2022, there had even been some hope that discussions in the Eurogroup would break the deadlock among Member States by agreeing a way forward on the open issues of the Council's roadmap, EDIS and sovereign exposures. This did not happen; instead, the Eurogroup agreed on a request to the Commission for **proposals to improve bank crisis management**. The Eurogroup considered this as *"**an immediate step**"*, while on the *"other outstanding elements"*[18] of the Banking Union, the Eurogroup suggests that further steps should be "*identified subsequently*".

In this briefing of January 2023, we provided an overview of what the Eurogroup had requested from the Commission together with some context and an initial assessment. In short, **the Eurogroup looked for**:

- clarifying and harmonising the public interest assessment so that resolution to applies more widely;
- harmonising the use of national deposit guarantee schemes in resolution
- maintaining appropriate flexibility for market exit of failing banks;
- harmonising national bank insolvency laws to a limited extent.

**Box: Eurogroup on CMU**

The Eurogroup has recently paid more attention to Capital Markets Union (CMU). The project, launched by the Commission in 2015, is pursued by the EU (i.e. beyond the Euroarea) to put finance to the economy onto wider foundations.

The May meeting of the Eurogroup agreed to identify, by May 2024, areas in which further progress is "possible and likely" in the years ahead - beyond the topics that are already on the legislative agenda. See also their work program. The Eurogroup talks of a "strategic reflection" and intends to ask the next Commission to consider the areas identified.

In March, Donohoe co-signed an op-ed article that pleas for courage and openness to change and desired progress regarding insolvency laws, access to financial information, capital markets access for smaller companies, robust market infrastructures and more integrated supervision.

Meanwhile the **European Parliament** published its 2022 Banking Union report. The Parliament expressed its **regret that the BU is still incomplete** without a European Deposit Guarantee Scheme and recalled that it is ready to resume work to complete it as soon as possible. As to the Commission's impending proposal improving crisis management, the report expressed the hope it could help **overcome hurdles to the completion of the Banking Union.**[19] Specifically, the report called for:

- **addressing the loopholes** in the crisis management framework;
- further specification and harmonisation of the **public interest assessment**;
- greater harmonisation of the **treatment of small and medium-size banks**;
- **appropriate financial resources** excluding taxpayers' money, accompanying the resolution tools;
- **level playing field** among different banking group structures; and
- consistency of the resolution framework and the **State aid rules**.

After a number of delays, the **Commission's proposal** for reforms of the crisis management and deposit insurance (CMDI) has arrived in April 2023. The proposal's central elements are:

- Tightening of the criteria for **public support to banks outside resolution**;
- A **new phase of involvement of the resolution authority with a bank** that precedes resolution. It is triggered when the supervisor sees a "*material risk*" of the bank becoming failing or likely to fail. Please

[18] i.e. EDIS and "possible next steps" on the regulatory treatment of sovereign exposures

[19] The ECON Committee has commissioned contributions from its banking expert panel as to how a reform of the crisis management framework could support completion of the banking union.

see the last section of this briefing for additional detail and some initial thoughts on possible implications;

- Modifications of the public interest assessment that are intended to **ensure resolution is chosen more often**. We consider these modifications in more detail here;
- A modification of the insolvency ranking of deposits. Basically, **all deposits are supposed to enjoy a privileged ranking, which does not distinguish anymore between deposits covered by the deposit guarantee schemes directive and those that are not**. While this measure leaves the coverage by the deposit guarantee untouched, it aligns the incentives of the deposit guarantee scheme with those of uncovered depositors. By consequence, the Commission hopes that the deposit guarantee scheme will be more likely to fund resolution measures which then eventually (1) improves the likelihood of avoiding losses for all depositors and (2) facilitates the resolution of banks that are predominantly deposit-funded;
- Some **extensions of deposit guarantee coverage in the margins**, while leaving the general limit of 100.000 Euro in place.

### 4.3. Digital euro

Throughout 2022 and 2023, the **Eurogroup has engaged in debates on the policy objectives and the design options of a digital euro**. President Donohoe has clearly signalled the ambition and the intention of the EG to remain actively involved in the discussion, even though Member States are not in the driving seat of the ongoing exploratory work.

**In a statement issued on 16 January 2023, the Eurogroup committed to "*continue to play an active role in discussing the key political issues underlying a digital euro*",** emphasising the political nature of some design choices, hence the relevance of co-legislators, and providing guidance on its main features:

- The **digital euro should not replace cash** but rather be a complement, granting access to central bank money as payments are increasingly digitalised.
- **Safety, privacy, ease and convenience of use, wide accessibility** (also in terms of costs) are key element of the final design. Ministers also requested to assess the environmental implications of a digital euro.
- **Privacy is key to maintain trust and the design should address AML/CTF considerations, prevent tax evasion and ensure sanctions compliance**.
- Ministers support having an **offline functionality, contributing to financial inclusion**.
- The digital euro should **safeguard financial stability**. In this respect, finance ministers float the idea of setting up **holding thresholds** and further have quantitative analysis on other potential constraints on the design of the digital euro. It also calls against threatening the independence of the ESCB and **preserving monetary transmission**.
- The digital euro should have a **pan-European nature and leverage public-private partnerships**, by building it on a European infrastructure and involving supervised intermediaries.
- The digital euro should drive innovation in future payment solutions. Finance ministers underlined that it could be used to program payments and should be able to be convertible at par for other forms of the euro. However, the **"digital euro (...) cannot be a programmable money".**
- The digital euro should focus on the euro area while being **interoperable with other CBDCs**, thus facilitating cross-currency and cross-border transactions. Risks associated with the use outside of the euro area should be mitigated.

The Eurogroup further delved into discussions on the digital euro in spring 2023, focusing on a number of issues such as the development of a pan-EU payment solution, monetary sovereignty, the legal tender status and its added value to citizens (see also related issue note). Elsewhere, the EG has shown interest in the international dimension of a potential digital euro, reiterating that it should ensure cooperation within the European Union as a whole and addressing the trade-offs of interoperability with other central bank digital currencies (CBDCs), as outlined in the related issues note.

In terms of next steps, the Eurogroup is expected to continue discussing the digital euro as a matter of priority, including by taking stock of the advancement of the project at its July meeting.

***Further reading:***

- EGOV briefing: *Digital Euro: Reviewing the progress to date and some open questions (May 2023)*



Contact: egov@ep.europa.eu

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

## Annex 1: GDP growth in euro area Member States

| | Eurostat* (06/2023) | | | | | | EC (05/2023) | | | IMF (04/2023) | | | ECB (06/2023) | | | OECD (06/2023) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 Q3 | 2022 Q4 | 2023 Q1 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| **BE** | -5,4 | 6,3 | 3,2 | 0,3 | 0,1 | 0,5 | 3.2 | 1.2 | 1.4 | 3.1 | 0.7 | 1.1 | 3.2 | 1.4 | 1.3 | 3.2 | 0.9 | 1.4 |
| **DE** | -3,7 | 2,6 | 1,8 | 0,5 | -0,5 | -0,3 | 1.8 | 0.2 | 1.4 | 1.8 | –0.1 | 1.1 | 1.9 | -0.3 | 1.2 | 1.9 | 0.0 | 1.3 |
| **EE** | -0,6 | 8 | -1,3 | -1,1 | -1 | -0,6 | -1.3 | -0.4 | 3.1 | –1.3 | –1.2 | 3.2 | -1.0 | -1.0 | 2.8 | -1.1 | -1.3 | 3.2 |
| **IE** | 6,2 | 13,6 | 12 | 2,5 | -0,1 | -4,6 | 12.0 | 5.5 | 5.0 | 12.0 | 5.6 | 4.0 | 12.0 | 6.0 | 6.1 | 12.2 | 4.4 | 3.7 |
| **EL** | -9 | 8,4 | 5,9 | 0,2 | 1,1 | -0,1 | 5.9 | 2.4 | 1.9 | 5.9 | 2.6 | 1.5 | 5.9 | 2.2 | 3.0 | 6.1 | 2.2 | 1.9 |
| **ES** | -11,3 | 5,5 | 5,5 | 0,4 | 0,5 | 0,6 | 5.5 | 1.9 | 2.0 | 5.5 | 1.5 | 2.0 | 5.5 | 2.3 | 2.2 | 5.5 | 2.1 | 1.9 |
| **FR** | -7,5 | 6,4 | 2,5 | 0,2 | 0 | 0,2 | 2.6 | 0.7 | 1.4 | 2.6 | 0.7 | 1.3 | 2.6 | 0.7 | 1.0 | 2.5 | 0.8 | 1.3 |
| **HR** | -8,5 | 13,1 | 6,2 | -0,6 | 0,5 | 1,4 | 6.2 | 1.6 | 2.3 | 6.3 | 1.7 | 2.3 | 6.2 | 2.9 | 2.6 | 6.2 | 2.1 | 2.5 |
| **IT** | -9 | 7 | 3,7 | 0,4 | -0,1 | 0,6 | 3.7 | 1.2 | 1.1 | 3.7 | 0.7 | 0.8 | 3.8 | 1.3 | 1.0 | 3.8 | 1.2 | 1.0 |
| **CY** | -4,4 | 6,6 | 5,6 | 1,9 | 0,9 | 0,8 | 5.6 | 2.3 | 2.7 | 5.6 | 2.5 | 2.8 | 5.6 | 2.6 | 2.8 | : | : | : |
| **LV** | -2,3 | 4,3 | 2,8 | -1,2 | 1,2 | 0,6 | 2.8 | 1.4 | 2.8 | 2.0 | 0.4 | 2.9 | 2.8 | 1.2 | 3.1 | 2.0 | 1.1 | 2.4 |
| **LT** | 0 | 6 | 1,9 | 0,7 | -0,5 | -2,1 | 1.9 | 0.5 | 2.7 | 1.9 | –0.3 | 2.7 | 1.9 | -1.3 | 2.7 | 1.9 | 0.0 | 2.6 |
| **LU** | -0,8 | 5,1 | 1,5 | 1,5 | -3,7 | 2 | 1.5 | 1.6 | 2.4 | 1.5 | 1.1 | 1.7 | 1.5 | 1.8 | 2.4 | 1.6 | 0.8 | 2.0 |
| **MT** | -8,6 | 11,7 | 7,1 | 1,4 | 1,1 | -0,5 | 6.9 | 3.9 | 4.1 | 6.9 | 3.5 | 3.5 | 6.9 | 4.0 | 3.8 | : | : | : |
| **NL** | -3,9 | 4,9 | 4,5 | -0,2 | 0,4 | -0,7 | 4.5 | 1.8 | 1.2 | 4.5 | 1.0 | 1.2 | 4.5 | 0.8 | 1.3 | 4.5 | 0.9 | 1.4 |
| **AT** | -6,5 | 4,6 | 4,9 | 0 | -0,1 | 0,1 | 5.0 | 0.4 | 1.6 | 5.0 | 0.4 | 1.1 | 4.9 | 0.5 | 1.6 | 4.9 | 0.2 | 1.6 |
| **PT** | -8,3 | 5,5 | 6,7 | 0,3 | 0,3 | 1,6 | 6.7 | 2.4 | 1.8 | 6.7 | 1.0 | 1.7 | 6.7 | 2.7 | 2.4 | 6.7 | 2.5 | 1.5 |
| **SI** | -4,3 | 8,2 | 5,4 | -1,3 | 0,7 | 0,6 | 5.4 | 1.2 | 2.2 | 5.4 | 1.6 | 2.1 | 5.4 | 2.0 | 2.2 | 5.4 | 1.5 | 2.6 |
| **SK** | -3,3 | 4,9 | 1,7 | 0,3 | 0,3 | 0,3 | 1.7 | 1.7 | 2.1 | 1.7 | 1.3 | 2.7 | 1.7 | 1.4 | 3.3 | 1.7 | 1.3 | 2.0 |
| **FI** | -2,4 | 3,2 | 1,6 | -0,2 | -0,5 | 0,4 | 2.1 | 0.2 | 1.4 | 2.1 | 0.0 | 1.3 | 2.1 | -0.4 | 0.9 | 2.1 | 0.0 | 1.2 |
| **EA** | **-6,1** | **5,3** | **3,5** | **0,4** | **-0,1** | **-0,1** | **3.5** | **1.1** | **1.6** | **3.5** | **0.8** | **1.4** | **3.5** | **0.9** | **1.5** | **3.5** | **0.9** | **1.5** |

** Note: *Year-on-year GDP growth is provided for 2020, 2021 and 2022, while quarter-on-quarter changes are provided for 2022 Q3 to 2023 Q1. Eurostat data extracted on 27 June 2023. The forecast data by EC, IMF, OECD and ECB are the baseline scenarios.*

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

| | **Eurostat* (06/2023)** | | | | | | **EC (05/2023)** | | | **IMF (04/2023)** | | | **ECB (06/2023)** | | | **OECD (06/2023)** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 Q3 | 2022 Q4 | 2023 Q1 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| **BE** | 0,4 | 3,2 | 10,3 | 12,1 | 10,2 | 4,9 | 10.3 | 3.4 | 10.4 | 10.3 | 4.7 | 2.1 | 10.3 | 1.9 | 4.3 | 10.3 | 4.0 | 3.7 |
| **DE** | 0,4 | 3,2 | 8,7 | 10,9 | 9,6 | 7,8 | 8.7 | 6.8 | 8.8 | 8.7 | 6.2 | 3.1 | 8.7 | 6.0 | 3.1 | 8.7 | 6.3 | 3.0 |
| **EE** | -0,6 | 4,5 | 19,4 | 24,1 | 17,5 | 15,6 | 19.4 | 9.2 | 19.3 | 19.4 | 9.7 | 4.1 | 19.4 | 9.4 | 2.3 | 19.4 | 9.2 | 3.4 |
| **IE** | -0,5 | 2,4 | 8,1 | 8,6 | 8,2 | 7 | 8.1 | 4.6 | 8.3 | 8.1 | 5.0 | 3.2 | 8.1 | 4.9 | 3.3 | 8.1 | 4.9 | 3.0 |
| **EL** | -1,3 | 0,6 | 9,3 | 12,1 | 7,6 | 5,4 | 9.3 | 4.2 | 10.0 | 9.3 | 4.0 | 2.9 | 9.3 | 4.3 | 3.8 | 9.3 | 3.9 | 3.2 |
| **ES** | -0,3 | 3 | 8,3 | 9 | 5,5 | 3,1 | 8.3 | 4.0 | 8.5 | 8.3 | 4.3 | 3.2 | 8.3 | 3.2 | 3.6 | 8.3 | 3.9 | 3.9 |
| **FR** | 0,5 | 2,1 | 5,9 | 6,2 | 6,7 | 6,7 | 5.9 | 5.5 | 5.8 | 5.9 | 5.0 | 2.5 | 5.9 | 5.6 | 2.4 | 5.9 | 6.1 | 3.1 |
| **HR** | 0 | 2,7 | 10,7 | 12,6 | 12,7 | 10,5 | 10.7 | 6.9 | 10.1 | 10.7 | 7.4 | 3.6 | 10.7 | 7.7 | 3.9 | 10.7 | 7.5 | 3.7 |
| **IT** | -0,1 | 1,9 | 8,7 | 9,4 | 12,3 | 8,1 | 8.7 | 6.1 | 8.7 | 8.7 | 4.5 | 2.6 | 8.7 | 6.1 | 2.3 | 8.7 | 6.4 | 3.0 |
| **CY** | -1,1 | 2,3 | 8,1 | 9 | 7,6 | 6,1 | 8.1 | 3.8 | 8.0 | 8.1 | 3.9 | 2.5 | 8.1 | 3.3 | 2.3 | : | : | : |
| **LV** | 0,1 | 3,2 | 17,2 | 22 | 20,7 | 17,2 | 17.2 | 9.3 | 16.9 | 17.2 | 9.7 | 3.5 | 17.2 | 8.5 | 2.4 | 17.2 | 11.2 | 4.8 |
| **LT** | 1,1 | 4,6 | 18,9 | 22,5 | 20 | 15,2 | 18.9 | 9.2 | 18.9 | 18.9 | 10.5 | 5.8 | 18.9 | 8.9 | 2.7 | 18.9 | 13.1 | 5.7 |
| **LU** | 0 | 3,5 | 8,2 | 8,8 | 6,2 | 2,9 | 8.2 | 3.2 | 8.4 | 8.1 | 2.6 | 3.1 | 8.2 | 2.3 | 2.6 | 8.2 | 3.5 | 3.7 |
| **MT** | 0,8 | 0,7 | 6,1 | 7,4 | 7,3 | 7,1 | 6.1 | 5.4 | 6.1 | 6.1 | 5.8 | 3.4 | 6.1 | 5.3 | 2.9 | : | : | : |
| **NL** | 1,1 | 2,8 | 11,6 | 17,1 | 11 | 4,5 | 11.6 | 4.9 | 11.6 | 11.6 | 3.9 | 4.2 | 11.6 | 4.2 | 3.7 | 11.6 | 3.2 | 2.2 |
| **AT** | 1,4 | 2,8 | 8,6 | 11 | 10,5 | 9,2 | 8.6 | 7.1 | 8.7 | 8.6 | 8.2 | 3.0 | 8.6 | 7.4 | 4.1 | 8.6 | 8.0 | 3.9 |
| **PT** | -0,1 | 0,9 | 8,1 | 9,8 | 9,8 | 8 | 8.1 | 5.1 | 8.0 | 8.1 | 5.7 | 3.1 | 8.1 | 5.2 | 3.3 | 8.1 | 5.7 | 3.3 |
| **SI** | -0,3 | 2 | 9,3 | 10,6 | 10,8 | 10,4 | 9.3 | 7.0 | 9.2 | 8.8 | 6.4 | 4.5 | 9.3 | 7.5 | 3.6 | 9.3 | 7.3 | 4.4 |
| **SK** | 2 | 2,8 | 12,1 | 13,6 | 15 | 14,8 | 12.1 | 10.9 | 11.8 | 12.1 | 9.5 | 4.3 | 12.1 | 11.0 | 6.2 | 12.1 | 11.0 | 5.6 |
| **FI** | 0,4 | 2,1 | 7,2 | 8,4 | 8,8 | 6,7 | 7.2 | 4.8 | 7.2 | 7.2 | 5.3 | 2.5 | 7.2 | 4.5 | 1.3 | 7.2 | 5.7 | 3.0 |
| **EA** | **0,3** | **2,6** | **8,4** | **9,9** | **9,2** | **6,9** | **8.4** | **5.8** | **2.8** | **8.4** | **5.3** | **2.9** | **8.4** | **5.4** | **3.0** | **8.4** | **5.8** | **3.2** |

* Note: *Average annual rate of HICP change is provided for 2020. 2021 and 2022, while information of annual rate of HICP change for the last month of the quarter is provided for quarterly data of 2022 and 2023. Eurostat data extracted on 27 June 2023.*