


EGOV

ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT



ECONOMIC GOVERNANCE

Economic Dialogue with the President of the ECOFIN

[Vincent Van Peteghem](#), Deputy Prime Minister of Belgium and Minister of Finance is participating in the ECON Committee in his capacity of President of the ECOFIN Council during the Belgian Presidency (January - June 2024). In accordance with the Treaty of the Union, "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council".

This document provides an overview of the Belgian Presidency priorities in ECON matters, including the Council's work relating to the implementation of the European Semester for economic coordination, notably the application of the Recovery and Resilience Facility, and other policy streams relevant to the EU single market and the deepening of the Economic and Monetary Union, including the review of the EU economic governance framework.

1. The ECON-related priorities of the Belgian Presidency

The [Belgian Presidency's priorities](#) in the Economic and Financial Affairs Council include the following policy areas inter alia:

- Concluding **the economic governance review**,
- Ensuring long-term financial **support to Ukraine and its reconstruction**,
- Reviewing and monitoring the implementation of **the Recovery and Resilience Facility (RRF)**, including REPowerEU,
- Facilitating work on new resources and finalising the mid-term review of the **2021-2027 Multiannual Financial Framework**,
- **Advancing work to tackle tax evasion, tax avoidance, aggressive tax planning and harmful tax competition**. Other goals include tackling tax abuse due to withholding taxes and exploring further harmonisation of tax rules in other areas. Among specific legislative actions, the Presidency seeks to **narrow the VAT gap** by focusing on the proposal on "VAT in the digital age", contribute to the **revision of the Union's Customs Code** and of the **Energy Taxation Directive**.



Economic Governance and EMU Scrutiny Unit (EGOV)

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In the area of financial services, the Presidency is aiming at finalising outstanding files under discussions, particularly those in negotiations with the European Parliament, with a view of strengthening **the Capital Markets Union and the Banking Union**. Concretely, it indicates that it would aim to:

- Further deepen the internal market through the EU retail investment strategy and the Listing Act.
- Improve the attractiveness of EU clearing services, in line with the overarching focus of the Presidency on competitiveness,
- Enhance financial literacy and inclusion.
- Continue the review of the Bank Crisis Management and Deposit Insurance (CMDI) framework
- Finalise the discussions on the **Environmental, Social and Governance (ESG) Rating Regulation**
- Advance the fight against **money laundering and the financing of terrorism (AML/CTF)**

The Council published [the indicative calendar of high-level events](#) during the Belgian Presidency.

A first ECOFIN under the Belgian Presidency took place on [16 January 2024](#) and the following items were discussed: the Presidency work programme for the first part of the year, the guidance for future work ahead of the G20 meeting of finance ministers and central bank governors of 26-29 February 2024 as well as the state of play on the economic and financial consequences of the Russian war in Ukraine.

Ministers also approved the draft [conclusions on the Alert Mechanism Report \(AMR\) 2024](#), on the [Annual Sustainable Growth Survey \(ASGS\)](#) and the [2024 Euro Area Recommendation](#), in line with the [roadmap](#) on the 2024 European Semester cycle issued by the Spanish and Belgian Presidencies.

[An Informal ECOFIN Council meeting](#) will take place in Ghent between 22 and 24 February 2024.

Given the timing of the European elections (6-9 June 2024), the Belgian Presidency is set to prioritise work on reaching political agreement with the EP as well as finalising outstanding technical work between February and March to allow sufficient time for adoption in the latest plenary before the elections (April 2024). Regular discussions among Member States on other open dossiers are therefore expected to resume only after.

Profile of the Minister



[Vincent Van Peteghem](#): Since October 2020 Deputy Prime Minister and Minister of Finance of Belgium. Since 2019, he is also Mayor of the Municipality of La Pinte.

Relevant previous positions

- Member of the Flemish Parliament (2019-2020)
- Member of the Chamber of Representatives (2016-2019)
- Municipal councillor of De Pinte (2013 - present)
- Professor of management and head of pedagogical innovation, EDHEC Business School (2011-2020)

Academic background

- Ph.D in Applied Economics from Ghent University (2011)
- Degree in Management of Public Organisations from Ghent University (2003)
- Degree in Applied Economics from Ghent University (2002)

Box 1: ECON-related legislative work in the first half of 2024**Files in trilogues:**

- **AML package** (1) [mechanisms for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing](#), (2) [establishment of the Authority for AML and Countering the Financing of Terrorism](#), (3) [prevention of the use of the financial system for the purposes of money laundering and terrorist financing](#))
- **Clearing package** (1) [Regulation](#) amending *inter alia* the European Market Infrastructure Regulation (EMIR); (2) [Directive](#) amending *inter alia* the Capital Requirements Directive (CRD)
- **Listing package** (1) [proposal](#) for a directive on multiple-vote share structures, (2) [proposal](#) amending the Markets in Financial Instruments Directive, (3) [proposal](#) amending *inter alia* the Prospectus Regulation
- **EU statistics:** [proposal](#) for amending EU statistics regulation
- **ESG ratings** [proposal](#) for a Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities
- **Economic governance review** (1) [SGP preventive arm](#), (2) [SGP corrective arm](#), (3) [Directive of national IFIs](#)).

Files not yet under inter-institutional negotiations:

- **Better data sharing:** [Proposal](#) to avoid duplicative reporting obligations for the financial sector by ensuring authorities share information.
- **Retail investment package** (1) [proposal](#) for an omnibus directive on retail investor protection, (2) [proposal](#) to modernise Key Information Documents for Packaged Retail Investment and Insurance Products
- **Digital euro package** (1) [proposal](#) on the legal tender status of banknotes and coins, (2) [proposal](#) establishing the digital euro, (3) [proposal](#) on digital euro services by providers outside the euro zone
- **PSD review package** (1) [proposal](#) for a regulation on payment services in the internal market, (2) [proposal](#) for a directive on payment and electronic money services
- **Banking resolution crisis management reform** (1) [amending the Bank Recovery and Resolution Directive](#), (2) [amending the SRB Regulation](#), (3) [amending the Deposit Guarantee Schemes Directive](#))
- **Labour market statistics:** [Regulation on European Union labour market statistics on businesses](#)
- **Benchmarks:** [proposal](#) for amending the Benchmark Regulation
- **Framework for Financial Data Access:** [Proposal](#) for a regulation access to and use of customer data across a wide range of financial services.

Box 2: 2024 European Parliamentary Week

As part of the parliamentary dimension at the EU level of EU economic governance framework, notably the European Semester for economic policy coordination, this year's **European Parliamentary Week will take place on 12-13 February** in the European Parliament. It is co-organised with the federal parliaments of the Belgium in their capacity of EU presidency parliaments.

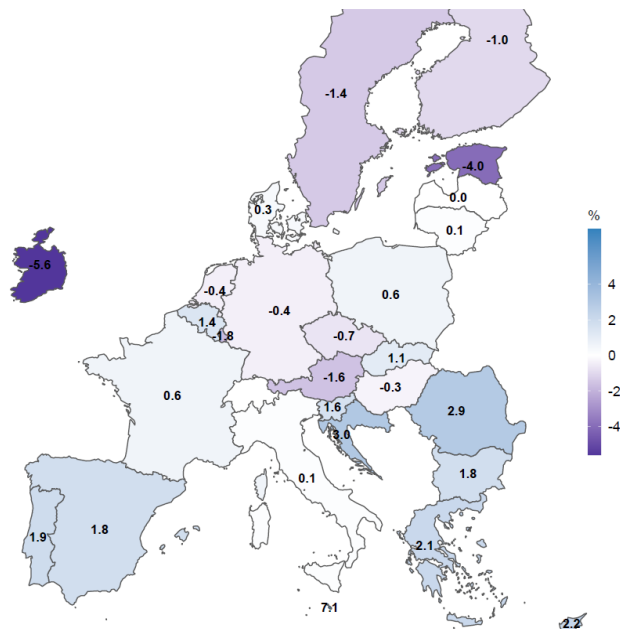
This year's conference among EU national parliaments and Members of the EP will focus on topics like strategic investments and reforms, the future of the single market and taxation, lesson learned at euro@25, the social dimension of the EU economic governance framework, the role of the EU long-term budget among other issues.

Full programme available [here](#).

2. Latest economic developments

The European economy is stagnating. The [Autumn 2023 Economic Forecast](#) of the European Commission revised growth estimates for both the EU and the euro area down to 0.6% in 2023 (from 0.8% in the Summer 2023 forecasts). This downward revision is even larger (0.4 percentage point) when compared to the [Spring forecasts](#). The Commission also cut growth estimates for the EU to 1.3% next year (from 1.4% in the *Summer forecasts*) and the euro area to 1.2% (from 1.3%) for 2024.

Figure 1: Differences in GDP growth rates (in %) in EU member states



Note: Data refers to seasonally adjusted year-on-year growth rates for third quarter of 2023. Source: [Eurostat](#).

The forecasts highlight an economic slump in the past three quarters, pointing towards a loss in momentum in the EU's economy as cost of living rises, external demand remains weak and the monetary tightening continues. A mild rebound could be at the horizon supported by a resilient labour market, positive wage growth, improvements in the external environment and tamed inflation.

The EU labour market continues to show robustness, with unemployment sitting at record low level of 5.9% in November according to [Eurostat](#) and according to Commission is projected to stabilise around this number in 2024 and 2025. The presence of historically low unemployment and elevated levels of job vacancies coupled with labour shortages suggests that the labour markets still remain tight.

The latest data by [Eurostat](#) show that **annual headline inflation in the EU, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 3.4% in December 2023.** Core inflation (i.e. HICP inflation excluding energy and food) continues to show a downward trend and has reached 4.0% in December. In the spotlight of the [ECB consumer expectations survey](#), expectations for the inflation has lowered significantly, reaching their lowest level since the period shortly after the start of the Russia's invasion of Ukraine.

As headline inflation is easing, the ECB is keeping interest rates on hold, with the main policy rate - the deposit facility rate (DFR) staying at 4%. Since 26 October 2023, the ECB decided to keep interest rates unchanged while the latest monetary policy decisions from 14 December show that the ECB is approaching the end of the hiking cycle. In period from July 2022, the ECB has delivered 10 consecutive hikes, for a total of 450 basis points (bps), making it by far the fastest hiking cycle in the history of the euro area. In the meantime, the ECB is normalising its balance sheet through i) banks' early repayment of Targeted Longer Term Refinancing Operations (TLTROs), ii) stopping reinvestments of the proceeds of securities maturing under its asset purchase programme (APP) and iii) fully reinvesting the principal payments from maturing securities through the pandemic emergency purchase programme (PEPP) throughout the first half of 2024. Following this, the ECB will stop reinvestments by the end of 2024.

According to the November 2023 ECB [Financial Stability Review \(FSR\)](#), the impact of tighter financial conditions is yet to be felt in the real economy, thus implicitly endorsing recent decisions to pause further

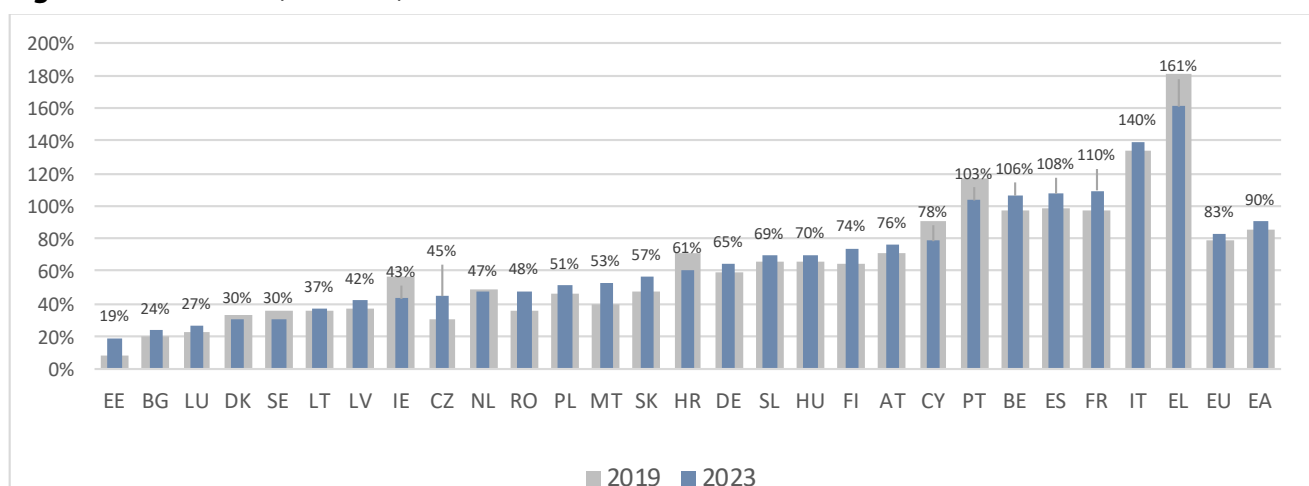
hikes to await for the full effects of monetary policy to kick-in. Concerns on sovereign debt sustainability resurface among weak economic outlook, higher funding costs, a turning labour market, and disorderly real estate developments. **Tightening of financial conditions, putting pressure on sovereign interest payments, or the lack of sufficiently prudent fiscal policy could worsen the outlook for governments** and raise worries on their debt sustainability. Challenges increasingly posed by higher borrowing debt servicing costs to firms, households and sovereigns are prevailing. Weakening macro-financial conditions have led to rising corporate insolvencies, which are now on aggregate above pre-pandemic trends. Should macroeconomic conditions deteriorate even more than expected, this could result in further challenges for private sector.

On sovereign debt markets, sovereign borrowing costs increased while spreads moderated in 2023. While inflation can provide short-term relief in reducing the debt burden, higher nominal interest rates increase costs for the rolling over of existing debt or issuance of new debt. Primarily due to increase of interest rates, as early as 2022, sovereign financing conditions experienced a shift towards being less favourable. Spreads between countries within the euro area widened as markets factored in increased risk, stabilising and even decreasing for some heavily indebted Member States.

The Autumn Economic Forecast indicate that, relative to 2022, **the EU (and euro area) government deficit is estimated to decline only by 2 p.p. to 3.2%**, as interest rates and the adverse economic environment contribute to push EU average deficit. Overall, the EU's aggregate debt is expected to decline to 2.8% in 2024 as further energy support measures are unwind and subsidies to private investment further retrench. The forecasts note that 12 Member States are projected to exceed the 3% deficit/GDP ceiling in 2024. This number is expected to rise to 13 in 2025.

While **public debt ratios are declining on aggregate**, this seems to be mostly driven by high inflation as the stagnation in real GDP growth hardly makes a contribution. There remains **broad heterogeneity in the developments of public debt ratios** as by the end of 2025 "five Member States (Belgium, Greece, Spain, France, and Italy) are expected to have debt ratios still well above 100% of GDP". In 2023, the most indebted countries are expected to be Greece (160.9%), Italy (139.8%), France (109.6%), Spain (107.5%), Belgium (106.3%) and Portugal (103.4%).

Figure 2: Public debt (as % GDP) in EU Member States in 2019 and 2023



Source: European Commission Spring and [Autumn](#) 2023 economic forecast.

Overall, the monetary and fiscal interplay is relevant for the current macroeconomic scenario. The effects of monetary tightening are being gradually passed on to the economy, suggesting further headwinds in the future, including by means of declining bank lending. The fiscal stance is turning

contractionary in 2023 on the back of the full roll-out of pandemic-related measures and the gradual withdrawal of government support to private investment. This will be even stronger in 2024 when energy-related support measures are expected to be fully phased out.

3. Economic coordination under the European Semester Cycles 2023-2024

On 16 January 2024, the ECOFIN-Council adopted conclusion on the 2024 Annual Sustainable Growth Survey (ASGS). It broadly agreed with the challenges and priorities outlined by the Commission.

The Council noted that the **European Semester in 2024 will continue to be linked to the implementation of the Recovery and Resilience Plans (RRPs)** and the need to ensure the complementarity of reforms and investments with other EU funding instruments. It called for keeping the European Semester primarily focused on economic, fiscal and employment policies, including on reform and investment challenges not addressed in the RRP, and avoiding overlaps across various surveillance work streams. It stressed the key role of multilateral surveillance in the European Semester and called for adequate timing of the spring package. It underlined the importance of the continued implementation of the Macroeconomic Imbalance Procedure for addressing macroeconomic imbalances

It also underlined the importance of a **revised economic governance framework** for enhancing economic policy coordination and called for timely and coherent guidance for Member States.

It stressed the importance of the **implementation of country-specific recommendations (CSRs)** in the context of the European Semester.

The **2023 CSR** were agreed by the Council in June 2023¹ and **are divided into four subparts**:

1. a recommendation on **fiscal policy**, including fiscal and structural reforms, where relevant;
2. a recommendation to continue or accelerate **implementation of the RRP**, including its revisions and the integration of REPowerEU chapters, taking into account potential country-specific implementation risks, and to swiftly implement the adopted cohesion policy programmes;
3. an updated recommendation on the clean **energy transition**, in line with the REPowerEU objectives;
4. where relevant, an additional recommendation on outstanding and/or newly emerging **economic or employment challenges**.

According to current EU law, the Council shall approve the CSRs as recommended by the Commission or explain publicly any changes it introduces “**i.e. comply or explain principle**”. This year, the Council changes the Commission’s recommendations on the timing to withdraw energy prices related fiscal measures (see below) and made a material change to the CSR for Greece (see here [EGOV comparison document](#)).

¹ The Council proceeds with the formal adoption of the [final texts](#) after the European Council has discussed them, in accordance with Article 121(2) TFEU.

3.1. Implementation of the Recovery and Resilience Facility

The state of play of the implementation of the RRF is summarised in Table 1 below.

Table 1: State of play regarding RRF implementation (as at 31/12/2023)

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
27 plans approved by the Commission and adopted by the Council																											
23 plans adopted by COM/Council include a REPowerEU chapter																											
21 pre-financing disbursed (EUR 56.6 billion)																											
10 pre-financing disbursements for REPowerEU																											
24 Operational Arrangements signed																											
All MS sent (multiple) payment requests to the Commission																											
22 MS received RRF-related payments (EUR 157 billion net of pre-financing)																											

Source: European Commission (RRF scoreboard and additional information in COM press releases that was not yet incorporated into the scoreboard)

23 Member States have submitted **modified RRP**s that include a **REPowerEU chapter**. All of those are meanwhile endorsed by the Commission and adopted by the Council. A large batch thereof was adopted in early December, namely those of Belgium, Bulgaria, Croatia, Cyprus, Finland, Germany, Greece, Ireland, Italy, Latvia, and Romania, as well as those of Poland and Hungary.

Apart from including a REPowerEU chapter, Member States also made other modifications to national RRP, either to reflect an increase or decrease of the maximum financial contribution, or to make changes required by **“objective circumstances”** (for a more detailed analysis of changes made due to objective circumstances, please see section 1.2 in a previous EGOV [briefing](#)).

As regards the situation of **Hungary**: On 23 November, the Commission published a positive assessment of Hungary's modified RRP, which includes a REPowerEU chapter. On 15 January, the Commission published a [press release](#) according to which it **disbursed** to Hungary a second (and final) tranche of REPowerEU pre-financing in grants amounting to EUR 140.1 million, adding to the first pre-financing tranche of EUR 779.5 million that was disbursed to Hungary on 28 December. The press release argues that those **advance payments** will help to kick-start the implementation of the investment and reform measures outlined in the REPowerEU chapter, but also sets out that **no disbursements** can take place as long as the 27 **“super-milestones”** have not been satisfactorily implemented.

Over the past weeks, the question had emerged in the public domain whether any disbursement would be warranted. On 17 January, MEPs will hold a **key debate in plenary** and assess the situation in Hungary, discussing the frozen EU funds with Presidents Michel and von der Leyen. A resolution on Hungary will be put to a vote on 18 January.

The [RRF Scoreboard](#), the Commission's information platform that documents the progress of the national RRFs, sets out that by end of 2023 a total of EUR 220 billion of grants and loans has been **disbursed** (including pre-financing), which represents **just 30%** of the total available RRF funds, although the programme reaches **half-time**. A recent [Explanatory note](#) suggests, however, that the Council remains **sceptical whether an accelerated implementation** of the RRF – as recommended by the Commission – **is feasible**, instead finding a continued, swift and effective implementation more appropriate.

3.2 Fiscal policy recommendations and coordination

With the general escape clause of the SGP deactivated, the fiscal recommendations as adopted by the Council in June 2023 will apply. Concretely, the Council decided that Member States who were not projected to be at their **medium-term budgetary objective (MTO)** in 2023 were recommended to **limit the growth of net nationally financed primary expenditure to a differentiated amount** that would ensure prudent fiscal policy (see **Table 2** below).

Countries that were projected to be at the MTO in 2023 were recommended to maintain a sound fiscal position in 2024, without such a quantitative limit.

All Member States were recommended to **wind down the energy support measures as soon as possible in 2023 and 2024** and, if not projected to be at the MTO in 2023, **use the related savings to reduce the government deficit**².

The Council also recommended that all Member States should **preserve nationally-financed investment and ensure the effective absorption of the Recovery and Resilience Facility (RRF) and other EU funds**, in particular in light of the green and digital transition and resilience objectives.

As a rule, Member States of the Euro Area submit by 15 October their **Draft Budgetary Plans (DBPs)** for the forthcoming year to the assessment by the European Commission and the Eurogroup (those submitted are available [here](#)).

These plans shall be consistent with the Council recommendations issued in the context of the SGP and, where applicable, with the Country Specific Recommendations (see above).

The Commission adopted its opinions on the DBPs on [21 November](#) and the Eurogroup made a statement on them on [7 December 2023](#) (see below).

Table 2: Quantitative fiscal recommendations for 2024 (as in Council 2023 fiscal CSRs for EA MS)

Country	CSR-1: Limiting nationally financed net primary expenditure	Commission assessment of 2024 DBPs	Country	CSR-1: Limiting nationally financed net primary expenditure	Commission assessment of 2024 DBPs
BE	2%	3,8 %	LV	3,0%	4,8%
DE	2,5%	2,6%	LT	NA (on MTO)	7,2%
EE	4,9%	4,2 %	LU	4,8%	5,0%
IE	NA (on MTO)	6,3%	MT	5,9%	5,5%
EL	2,6%	-0,3%	NL	3,5%	5,8%
ES	2,6%	2,1%	AT	4,6%	4,6%

² The Commission recommended to the Council that **all Member States wind down the energy support measures in force by the end of 2023**. However, the Council slightly deviated from this and agreed instead that in **absence of new energy shocks, support measures should wind down only in 2023-2024** (see this [EGOV document](#)).

FR	2,3%	2,8%	PT	1,8%	5,7%
HR	5,1%	10,3%	SK	5,7%	6,5%
IT	1,3%	0,9%	SI	5,5%	2,9%
CY	NA (on MTO)	4,3%	FI	2,2%	4,4%

Source: Council 2023 CSRs and [Commission assessment](#) of 2024 DBPs. See also the Annex to this document. Colour codes based on the above assessment by the Commission (see also the position of the Eurogroup below).

Seven Member States are assessed as **compliant with the fiscal recommendations**, while **nine are not fully aligned**, and **four are at risk of not meeting the criteria**:

- **Cyprus, Estonia, Greece, Spain, Ireland, Lithuania, and Slovenia** adhere to the fiscal recommendations.
- **Austria, Germany, Italy, Luxembourg, Latvia, Malta, the Netherlands, Portugal, and Slovakia** show partial alignment.
- **Germany, Malta, and Portugal** are urged to expedite the phasing out of energy support measures by 2023 and 2024.
- **Italy, Latvia, and the Netherlands** are advised to be prepared to implement necessary measures.
- **Belgium, Finland, France, and Croatia** are at risk of non-alignment and are urged to incorporate necessary measures within their national budgetary process to ensure fiscal policy in 2024 aligns with the Council Recommendation.
- **Luxembourg and Slovakia** are encouraged to ensure their forthcoming plans align with the Council recommendations.

The **Eurogroup drew on 7 December** the following conclusions, based on the Commission assessments:

- welcomed that the DBPs of **Cyprus, Estonia, Greece, Spain, Ireland, Lithuania and Slovenia** are in line with the fiscal recommendations of the Council;
- noted that the DBPs of **Austria, Germany, Italy, Luxembourg, Latvia, Malta, Netherlands, Portugal and Slovakia** are broadly in line with the Council fiscal recommendations. It invited these member states to stand ready to take action as necessary. It took note of the announcement of **Germany** that adjustments might be necessary to its budget plans and welcome its willingness to keep the Eurogroup informed (see also **Box 1** below).
- noted that the DBPs of **Belgium, Finland, France and Croatia** risk being not in line with the fiscal recommendation of the Council, while the fiscal policy in Belgium and France is nevertheless projected to be contractionary. It invited these member states to consider in a timely manner and as necessary to take action to address the risks identified by the Commission to ensure that fiscal policy is in line with the recommendations adopted by the Council and welcomes their commitment to follow-up as needed.
- noted that **Spain, Slovakia and Luxembourg submitted DBPs on no-policy-change** basis. It welcomed that these countries will submit updated DBPs and looked forward to the Commission assessment of those updates.

In spring 2024, the Commission will propose to the Council to **open deficit-based EDP** on the basis of the outturn data for 2023, in line with existing legal provisions. Member States should take account of this when executing their 2023 budgets and when conducting their fiscal policies in 2024.

For an overview of the 2023 fiscal policy recommendations for all Member States, including latest fiscal figures, please see separate EGOV document on the [implementation of the SGP](#).

3.3 Macro-economic imbalances

On 16 January, the ECOFIN Council [draw the following conclusions](#) based on [the Alert Mechanism Report as published by the Commission in November 2023](#) at the start of the European Semester Cycle 2024. Council welcomes the high-quality analysis outlined in the Alert Mechanism Report, particularly its forward-looking assessment of a possible risk evolution and takes note of the Commission's intention to conduct in-depth reviews for certain Member States experiencing or at risk of imbalances. Attentive monitoring of existing and potential imbalances is necessary, emphasising the importance of prompt policy responses. This includes implementation of structural reforms as suggested in CSRs within the European Semester framework, as well as those outlined in recovery and resilience plans.

Main draft conclusions are the following:

- **Despite a slowdown in 2023, the EU economy remains resilient**, higher energy prices and inflation reduced purchasing power and tighter financing conditions weighed on confidence and demand.
- **In the context of MIP, importance of implementing the Procedure** is emphasised and stresses the early detection and correction of imbalances.
- **It recognizes significant declines in current account balances in 2022**, primarily due to soaring energy prices and highlights inflation differentials posing challenges for competitiveness.
- **Highlights the decline in private and public sector debt ratios in most Member States**, recognizes the impact of pandemic support packages on public debt ratios and acknowledges sizeable corporate debt stocks and their potential risk.

According to the Alert Mechanism Report, the economic outlook for macro-economic imbalances is uncertain, as robust GDP nominal growth has facilitated debt leveraging, alleviating some persistent imbalances while exacerbating others in the environment of rising financing conditions. Competitiveness deteriorations that were highlighted in the last year's Alert Mechanism Report are taking shape, driven by price and costs increases. While some countries are dealing with inflation stickiness, others face elevated unit labor costs, which contribute to increasing price level divergences as core rates reduce. For Member States with high external deficits, the adjustment of external balances may prove to be challenging. Certain countries exhibit softer adjustments in price reversals in both residential real estate and commercial real estate housing markets, while in others, the risk of spillover into other sectors remains a concern.

During the first half of 2024, in-depth reviews will be conducted for 11 Member States that have been identified as facing either imbalances or excessive imbalances, as outlined [in the in-depth reviews from May 2023](#) (CY, FR, DE, EL, IT, HU, NL, PT, RO, ES, SE). **According to the scoreboard, additional review will be conducted for Slovakia** since it presents newly emerging imbalances, while for other countries (CZ, EE, LV, LI, LU) there is no need to conduct additional reviews since risks are currently diminishing. Finally, countries that deserve attention due to numerous developments (e.g., cost competitiveness, house price growth, unit labour cost or household and non-financial corporations debt) that might pose risks are Bulgaria, Croatia, Poland and Denmark.

4. Completing the Economic and Monetary Union

4.1 EU economic governance reform

On 26 April, the Commission presented its [legislative proposals for the EU economic governance reform](#).

The reform proposals by the Commission comprises of [three legal texts](#):

- [Proposal to repeal and replace the current preventive arm of the Stability and Growth Pact](#) ;
- [Proposal amending the Regulation on the corrective arm of the Stability and Growth Pact](#) ; and
- [Proposal amending the Directive on the requirements for budgetary frameworks of Member States](#)

These legal texts propose *de facto* amendments that would also affect the application of some of the other EU economic governance legal acts in force today³.

Box 4: Core elements of the Commission's proposal for EU economic governance reform

The proposals of the European Commission aim at striking a balance between reductions of debt levels and supporting sustainable growth, while promoting national ownership, improving enforcement and simplifying the rules. The proposals pivot around a number of key elements:

- **Country-specific fiscal adjustment:** Depending on levels of public indebtedness, as measured by the Maastricht reference values of debt above 60% of GDP and deficit above 3% of GDP, the Commission would propose technical trajectories for debt/deficit reduction. After bilateral discussions with the Commission and endorsement in Council, each Member State would adopt country-specific medium-term fiscal-structural adjustment plans (MTFSP) outlining numerical targets to be achieved by the end of the assessment period.
- **Medium-term focus:** The minimum length of the MTFSP would be four years, but could be extended by three more years to achieve a more gradual debt reduction subject to the commitment to investment and reform programmes. Changes in government would allow for a revision as long as this does not lead to lower ambition in the fiscal adjustment effort or back loading. The Commission also envisages a certain degree of flexibility by codifying the existence of two escape clauses and regulate their use.
- **Shift towards more observable indicators:** Compliance would be monitored only through net public expenditure targets. The Commission would establish a control account to track cumulative deviations from the expenditure path while Member States would be obliged to report annually on their plans.
- **More automaticity for debt-based excessive deficit procedures (EDPs):** This would allow to replace the current 1/20th annual debt reduction rule. The degree of debt challenge for a Member State would become a key relevant factor to assess when considering the launch of an EDP.
- **Safeguards:** A number of safeguards are proposed to ensure that debt ratios fall below their initial level at the end of the period, that fiscal adjustment is at least 0.5% of GDP per year for deficits (expected to be) in excess of 3% of GDP, that in case of extensions most of the fiscal adjustment is delivered in the first four years and prevent back-loading / lowering of fiscal adjustment efforts.

Council negotiating position

On 20 December 2023, the Council reached a political agreement on the economic governance reform. Following the [formal endorsement](#) of an official negotiating position (general approach) by ambassadors on 21 December 2023, the Council is now ready to start interinstitutional negotiations with the EP (see Council's negotiating mandate on the preventive arm [here](#) and agreements in principle with a view of consulting the EP on the corrective arm [here](#) and on budgetary frameworks [here](#)).

³ 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

The Council general approach was structured around **four building blocks**, namely:

- Institutional balance
- Common safeguards
- Fiscal space for investments and incentives for reforms
- Credible enforcement and ownership.

Among its major changes, the Council agreed on the introduction of a number of additional safeguards, including:

- A **debt sustainability safeguard**, by which the technical trajectory shall ensure a minimum annual average reduction in the projected general government debt-to-GDP ratio by 1 p.p. for Member States with public debt above 90% of their GDP and by 0.5 p.p. for those with ratios between 60 and 90%.
- A **deficit resilience safeguard** to ensure continued fiscal adjustment by creating a *“common resilience margin”* relative to the 3% reference value of deficit to GDP. This margin would be set in structural terms at 1.5%. It furthermore requires that the yearly improvement in the structural primary balance to achieve the margin should be 0.4% of GDP, with the possibility to reduce it to 0.25% in case of an extension of the adjustment period.
- **Deviations** from the net expenditure path recorded in the **control account of 0.3 p.p. of GDP annually or 0.6 p.p. on a cumulative basis** should lead the Commission to issue a report under a debt-based EDP. The control account would be reset after the endorsement of a new MTFSP. The Council further defines some key factors to be taken into account for the purpose of opening an EDP, e.g. a substantial debt challenge should also be considered as a key aggravating factor. Similarly, for a transitory period between 2025 and 2027 the increase in the interest rates should be taken into account when setting the EDP corrective trajectory.

On key accountability and transparency issues, **Member States did not substantially change the Commission’s proposal on the role of the European Parliament**, but still tabled a few relevant amendments to **boost the national dimension of the framework** (e.g. calling for the involvement of national parliaments in the European Semester or removing the possibility for the EP to invite a Member State to an exchange of views when at risk of deviating from net expenditure path or exceeding the 3% deficit-to-GDP ceiling).

The framework for the European Fiscal Board (EFB) and Independent Fiscal Institutions (IFIs) is also changed, with the text being more prescriptive on the advisory role of the EFB and softening the role of the IFIs in assessing deviations from the net expenditure path. At a later stage, a review might also allow to explore the establishment of minimum standards for IFIs. Overall, the **Council seems to be limiting accountability checks by IFIs and favouring instead additional involvement (though limited) of national parliaments**. This is done by emphasising the non-binding nature of the IFIs’ opinions and introducing across the board a requirement that their opinions are provided when explicitly requested by the EU’s executive bodies (Commission or Council) in a number of areas.

On other issues, the Council further **specifies the conditions to be met by reforms and investment to justify an extension of the adjustment period of at most 3 years** and describes the **timing for the budgetary planning in 2024**. This would require the Commission to issue prior guidance to Member States by 15 February 2024 and the submission of MTFSP by 30 April 2024, unless there is an agreement on the extension of the deadline *“by a reasonable period of time”*.

A number of transitional arrangements are also introduced. These would allow **commitments under the RRF to be taken into account for the extension of the adjustment period or to give consideration to RRF loans and national co-financing of EU funds in 2025 and 2026** when a country requests an exception to the no-backloading safeguard. Member States would also be temporarily allowed to use *“more stable*

series than the ones resulting from the commonly agreed methodology" in order to acknowledge "the exceptional impact of recent economic shocks and current uncertainty on estimates of potential growth"

European Parliament's ECON Committee's position

On 11 December 2023, **the European Parliament's Committee on Economic and Monetary Affairs (ECON), the lead committee for the three proposals, adopted its position on the reform.** Interinstitutional negotiations with the Council (so-called "*trilogue*") will only start once the EP plenary has provided its mandate. Formally, the EP has only a role as co-legislators for the preventive arm proposal (ordinary legislative procedures) while it will be consulted on the other two proposals.

The EP position, prepared under the leadership of MEPs *Esther de Lange* (EPP, NL) and *Marguerida Marques* (S&D, PT) as co-rapporteurs, was further informed by an opinion of the Committee on Employment and Social Affairs (EMPL) based on its areas of competence (e.g. European Pillar of Social Rights in the context of the European Semester) under the leadership of MEP Gabriele Bischoff (S&D, DE).

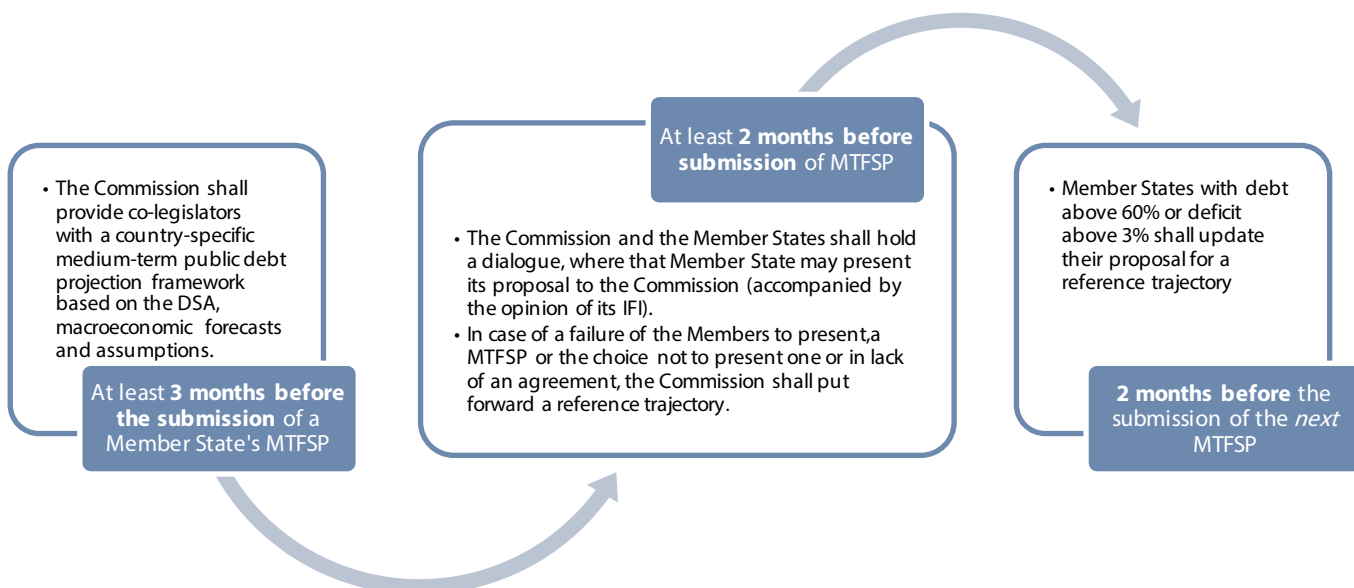
Please see [here](#) the EP press release following the vote in the ECON Committee. The final report as voted by the committee are available [here](#) (preventive arm), [here](#) (corrective arm) and [here](#) (national IFIs).

Notable changes relative to the Commission proposal include:

- **Exclusion of co-financing from net expenditure definition** - government expenditure on Union's programmes, though capped at 0.25% GDP, as well as cyclical elements of unemployment benefit expenditures and costs related to costs of borrowing under the RRF are now excluded.
- **Revision of the process for the definition of a "reference trajectory"** - Member States with debt above 60% or deficit above 3% require the Commission to propose a "reference trajectory" in a report to the EP and Council. This trajectory should be based on a publicly available methodology and include data, assumptions, and calculations for replication. It involves dialogue between the country and the Commission. For further details on the process see **Figure 6** below.
- **Introduction of annual fiscal consolidation of 1 p.p. of GDP on average for highly indebted Member States** - A rule mandates a yearly reduction of public debt by 1 p.p. for countries with debt ratios above 90% GDP, and at least 0.5 p.p. for those between 60% and 90%. Exceptions exist for deficit over 3% but debt below 60%. There is also deletion of the requirement for net expenditure growth to stay below medium-term output growth.
- **Enforcement role of the control account is made more binding** - Member States are considered non-compliant with their net expenditure path if the cumulative balance on the control account exceeds 1% of GDP during growth years. An exception allows temporary deviation (up to 5 years) for strategic investments aligned with Union priorities.
- **Specifics on Medium-Term Fiscal-Structural Plans (MTFSPs)**: The text outlines criteria for MTFSPs, including setting nominal targets for the net expenditure path. Key points include focusing on sustainable debt reduction, addressing warnings from the Commission/Council, aligning with Union priorities (defined in the text), and evaluating public investment gaps.
- **Introduction of a MTSTP scoreboard to display the progress of implementation of the MTFSPs**. It includes reforms, investments, Union priorities, net expenditure path status, and national public investment gaps. It'll be online by June 2024, updated biannually, and publicly accessible.
- **Stronger role for the European Parliament:**
 - **EP's strengthened role:** The European Parliament now gets simultaneous and equal information as the Council, with more involvement in the European Semester. It can call for appearances from the Commission and Member States, and the Council and Commission must regularly report to the EP. The Eurogroup submits an annual report.
 - **New Dialogues introduced:**
 - **European Semester Dialogue:** Leaders appear before the EP upon invitation.

- **MTFSP ('Medium-Term Fiscal Structural Plan') Dialogue:** Commission appears at committee level upon EP's request. EP can invite various presidents (Council, EUCO, or Eurogroup) for discussions. Commission considers these dialogues and EP resolutions in its policies.
- **The EP's competent committee can invite Member States** to participate in discussions when the Council issues recommendations to Member States in case of failures to submit a Multiannual Financial and Strategic Plan, non-compliance with commitments leading to an extension of the adjustment period, or when the Council recommends measures to address the risk of surpassing the 3% reference value for debt-to-GDP.
- **The framework for IFIs and EFB is substantively revised:**
 - **EFB:** To be an independent advisory body with diverse members, advising multiple entities.
 - **IFIs:** Need diverse views in assessments, should disclose minority positions. Proposals suggest publicising their opinions and sharing best practices among IFIs coordinated by the EFB.
 - **Commission Assessments:** Should be accompanied by EFB opinion on Union aspects and relevant IFI opinions on national aspects regarding MTFSPs.
- **General Escape Clause activation:** EFB's opinion should accompany activation, but a delay should not hinder the Commission from recommending clause activation.
- The review is anticipated to end-2028 and shall assess if [Communication on Making the Best Use of Flexibility within the SGP](#) is still fit for purpose.
 - **New relevant factor for the purposes of a debt-based EDP:** Proposed factors for assessing the launch of an EDP in the preventive arm include commitments to common priorities, investments in Recovery and Resilience Plans, cohesion funds, and future EU investment instruments.

Figure 3: The new reference trajectory process proposed by the European Parliament



Source: EGOV based on ECON report.

4.2 Completion of the Banking Union

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:

- Modifications of the public interest assessment that are intended to **ensure resolution is applied more often**. We consider these modifications in more detail [here](#);
- Some **extensions of deposit guarantee coverage in the margins**, while leaving the general limit of 100.000 Euro in place. However, **general depositor protection is proposed to become a public interest objective** that resolution authorities will have to pursue, likely avoiding losses for uninsured depositors in many cases, as discussed in this [briefing](#).
- 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; 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 see the last section of this [briefing](#) for additional detail and some initial thoughts on possible implications;

Council is examining the proposals at working group level. According to its [priorities](#), the Belgian Presidency wants to "take forward" this file, which suggests that it does not necessarily expect reaching a General Approach.

Further reading:

- [Bank crisis management and deposit insurance](#)
- [A revised public interest test for bank resolution, how much will it matter?](#)
- [CMDI reform: What are the implications for depositors?](#)

Meanwhile, the **backstop for the Single Resolution Fund** is still not in place. While it has long been agreed at governments' level, it had to be ratified by national parliaments together with other changes to the ESM treaty. The ratification by the Italian one failed in December; see [here](#).

4.3 Progress of the Capital Markets Union

The Capital Markets Union (CMU) project, [put forward](#) by the Commission in 2015, is pursued by the EU to put finance for the economy onto stronger and broader foundations. Since, there have been numerous legislative initiatives and follow-up communications from the Commission, yet among finance ministers there are [concerns](#) that **EU capital markets have still not caught up with international peers**.

On 28 April 2023, representatives of the European Parliament, the current and incoming (i.e., the Spanish) presidencies of the Council of the EU, and the Commission [committed](#) to **finalising pending CMU initiatives as quickly as possible**, in any case before the end of the current legislative cycle; see **Box 1** on page 2 for a list of ongoing and pending legislative procedures. Among those, Solvency 2 is subject to a provisional political agreement while trilogues on the Listing and Clearing packages will be ongoing under the Belgian presidency. As to the Retail Investment Package, finalisation is in any case hard to achieve since

the Belgian presidency still has to attain a general approach and the vote in ECON is scheduled on 30 January 2024.

As an aside, the Eurogroup (even though CMU is not a euro zone project) [agreed](#) on an initiative to identify **additional 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. We understand the Eurogroup intends to report in May 2024 to ECOFIN under the Belgian presidency.

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