ANNEX. THE EURO AREA CHRONICLE

The Commission, the Economic and Financial Affairs Council and the Eurogroup regularly take decisions that affect how the Economic and Monetary Union works. To keep track of the most relevant decisions, the QREA documents major legal and institutional developments. This issue covers developments between October and December 2023.

On 21 November, the Commission launched the 2024 European Semester cycle of economic policy coordination. ([113]) The policy package included: the Annual Sustainable Growth Survey, the Alert Mechanism Report, the Commission proposal for a Joint Employment Report, the proposal for a euro area recommendation and the Commission Opinions on the euro area Member States' 2024 Draft Budgetary Plans. The Annual Sustainable Growth Survey (ASGS) outlines the economic and employment policy priorities for the EU for the coming 12 to 18 months. This year's ASGS puts forward an ambitious agenda to further strengthen a coordinated policy response to enhance the EU's competitiveness through a green and digital transition, while ensuring social fairness and territorial cohesion. The Alert Mechanism Report (AMR) ([114]) assesses economic developments to identify Member States for which the Commission will undertake in-depth reviews to detect if those Member States are affected by macroeconomic imbalances or how these imbalances are developing. This year's AMR concludes that in-depth reviews are warranted for nine euro area countries, namely Cyprus, Germany, Greece, France, Italy, the Netherlands, Portugal and Spain – these are the Member States that were, in the 2023 cycle, identified as experiencing imbalances or excessive imbalances – as well as for Slovakia. ([115]) Subsequently, in December, the Commission has also published the post-programme reports for Greece, Ireland, Cyprus, Portugal and Spain and concluded that these five Member States retained capacity to pay their debt. ([116])

The euro area recommendation ([117]), which is supported by the Euro Area Report ([118]), presents policy advice to euro area Member States on topics that affect the functioning of the euro area as a whole. This year the focus lies on policy responses to the challenges of high inflation and competitiveness. It recommends that euro area Member States i) adopt coordinated prudent fiscal policies and wind down energy support measures, with a view to enhancing public finances' sustainability and avoiding fuelling inflationary pressures; ii) ensure high and sustained levels of public investment and promote private investment through the acceleration of the implementation of the Recovery and Resilience Facility and Cohesion Policy programmes; iii) support wage developments that mitigate the loss in workers' purchasing power, taking into account competitiveness dynamics; iv) monitor risks related to tightening financial conditions, while completing the Banking Union; and v) enhance competitiveness by improving access to finance, progressing in the Capital Markets Union and ensuring that public support to strategic sectors remains targeted and does not create distortions in the level playing field of the Single Market. After discussion by the Eurogroup in January 2024, the recommendation for the economic policy of the euro area is expected to be endorsed by the European Council, leading to final adoption by the ECOFIN Council.

([113]) https://ec.europa.eu/commission/presscorner/detail/en/ip_23_5871.

([114]) European Economy-Institutional Papers, 260.

([115]) The in-depth review for Slovakia in the previous annual cycle concluded that it was not experiencing imbalances. However, economic developments since then point to a continued risk of possible imbalances as the abatement of these risks does not appear to be clearly underway. In addition, the AMR concluded that in-depth reviews are also warranted for Hungary, Romania and Sweden.

([116]) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_6801.

([117]) https://commission.europa.eu/publications/2024-european-semester-recommendation-euro-area_en

([118]) The incoming Slovak government submitted an updated DBP on 12 December 2023, and its assessment is currently underway.

The Commission also issued its opinions on Draft Budgetary Plans (DBPs) of euro area Member States. The Commission assessed the 2024 DBPs' consistency with the fiscal policy recommendations adopted by the Council in July 2023. In its opinion, the Commission considered that the Draft Budgetary Plans of Cyprus, Estonia, Greece, Spain, Ireland, Slovenia and Lithuania are in line with the Council Recommendations. On the other hand, the Draft Budgetary Plans of Austria, Germany, Italy, Luxembourg, Latvia, Malta, Netherlands, Portugal and Slovakia are not fully in line with the Council Recommendations. In its Statement of 7th December, the Eurogroup invited these Member States to stand ready to take action as necessary. Finally, the Draft Budgetary Plans of Belgium, Finland, France, Croatia risk not being in line with the Council Recommendations. The Eurogroup 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 welcomed their commitment to follow-up as needed. Due to their political cycle, Spain, Slovakia and Luxembourg submitted DBPs 'on no-policy-change basis': this means that the DBPs did not include policy targets and that the draft budgets had not yet been sent for a vote in the national parliaments; for these Member States updated DBPs are expected to be submitted in due time. ([119])

Economic governance review: the Council agreed a general approach on the reform of the fiscal rules. On 26 April 2023, the Commission presented a package of three legislative proposals with the central objective of strengthening public debt sustainability and promoting sustainable and inclusive growth in all Member States through reforms and investment. Specifically, these comprised two regulations aiming to replace (preventive arm) and amend (corrective arm) the two pillars of the Stability and Growth Pact, and amend the directive on requirements for Member States' budgetary frameworks. On 21 December 2023, the Council achieved a general approach, which constitutes a mandate for negotiations with the European Parliament on the preventive arm regulation, and an agreement in principle with a view to consulting the European Parliament on the corrective arm regulation and on the directive on requirements for national budgetary frameworks.

The Council has adopted all the REPowerEU chapters submitted to the Commission. ([120]) On that basis, disbursements of REPowerEU pre-financing have been made to France, Slovenia, Slovakia, Malta, Estonia, Portugal, Lithuania and Austria under the Recovery and Resilience Facility. ([121]) These pre-financing payments will help kick-start the implementation of the crucial investment and reform measures outlined in each REPowerEU chapter. This will accelerate the delivery on the REPowerEU Plan's objectives to save energy, produce clean energy and diversify energy supplies, with a view to make Europe independent from Russian fossil fuels in light of Russia's unprovoked full-scale invasion of Ukraine. In parallel, standard payments under the Recovery and Resilience Facility continued, ([122]) bringing the total amount of disbursements to euro area Member States to €202 billion by the end of 2023.

([119]) https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules.

([120]) In the case of Germany, Ireland and Luxembourg the chapters are expected to be submitted in 2024.

([121]) https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/timeline.html?pk_source=newsletter&pk_medium=email&pk_campaign=enews289.

([122]) Disbursements under the Recovery and Resilience Facility to Italy took place in October, and to Estonia and Croatia in November. Further disbursements to France, Germany, Greece, Italy, Portugal, Slovakia and Slovenia followed in December.