

Annex. The euro area chronicle

The Commission, the Ecofin Council and the Eurogroup regularly take decisions that impact the functioning of the Economic and Monetary Union (EMU). In order to keep track of most relevant decisions, the QREA features a chronicle of major legal and institutional developments, presented in a chronological order with references. This issue of the chronicle covers developments between mid-March 2022 and mid-July 2022. In May, the European Commission provided Member States with guidance for their macroeconomic policy. In June, the Commission adopted the 2022 Convergence Report, concluding that Croatia was ready to adopt the euro on 1 January 2023 and the Eurogroup agreed on the release of the seventh tranche of policy-contingent debt measures for Greece ⁽¹⁰³⁾.

Recovery fund disbursement to Portugal. In the second quarter of 2022, the European Commission continued to transfer funds under the Recovery and Resilience Facility (RRF). On 25 January 2022, Portugal submitted to the Commission a payment request under its recovery and resilience plan based on the achievement of the 35 milestones and targets of the first instalment of the non-repayable support and three milestones of the first instalment of the loan support. The milestones cover reforms in health, social housing, social services, investment and innovation, qualifications and skills, forestry, the blue economy, the bio-economy, renewable gases (including hydrogen), public finances and public administration. Several targets also concern investments in infrastructure, decarbonisation of industry and digital education. On 25 March 2022, the Commission adopted a positive preliminary assessment of Portugal's request ⁽¹⁰⁴⁾. Following a discussion between Member States, including in the Economic and Financial Committee, the Commission transferred EUR 1.16 billion to Portugal.

Economic policy guidance for euro area Member States. On 23 May, the Commission adopted a package providing Member States with guidance for their macroeconomic policy, two years on from the first impact of the COVID-19 pandemic and in the midst of Russia's ongoing invasion of Ukraine ⁽¹⁰⁵⁾. The package links the European Semester (the process for coordinating Member States' macroeconomic policies), the RRF and REPowerEU. The objective of the Commission's REPowerEU, adopted on 18 May ⁽¹⁰⁶⁾, is to rapidly reduce the EU's dependence on Russian fossil fuels. Fast-forwarding the clean transition and achieving a more integrated energy system would make the euro area more resilient and would reduce the negative impact of external energy shocks on inflation and monetary policy. The RRF will continue to drive Member States' reform and investment agendas for the years to come. It is the main tool to speed up the twin green and digital transition. The country-specific recommendations adopted in the context of the European Semester provide guidance to Member States to adequately respond to persisting and new challenges and deliver on shared key policy objectives. This year, they include recommendations for reducing the dependency on fossil fuels through reforms and investments, in line with the REPowerEU priorities and the European Green Deal.

Assessment of macroeconomic imbalances. The Commission has also assessed the existence of macroeconomic imbalances for the nine-euro area Member States (Germany, Ireland, Greece, Spain, France, Italy, Cyprus, the Netherlands, and Portugal). Overall, vulnerabilities are receding and are falling below their pre-pandemic levels in various Member States and notable policy progress has been made in addressing existing macroeconomic imbalances, justifying a revision of the classification of imbalances in two countries, Ireland and Croatia. In these two countries, debt ratios have declined significantly over the years and continue to display strong downward dynamics. Five euro area Member States (Germany, Spain, France, the Netherlands, and Portugal) continue to experience imbalances, and three Member States (Greece, Italy, and Cyprus) continue to experience excessive imbalances.

⁽¹⁰³⁾ Annex compiled by Jakub Wtorek. The cut-off date for this annex is 19 July 2022.

⁽¹⁰⁴⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_1965

⁽¹⁰⁵⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3182

⁽¹⁰⁶⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3131

Fiscal policy guidance. The country-specific recommendations adopted in May also provide orientations for the Member States' fiscal policy going forward. The specific nature of the macroeconomic shock caused by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023. Fiscal policy should expand public investment for the green and digital transition and energy security. Full and timely implementation of the recovery and resilience plans is key to achieving higher levels of investment. Fiscal policy should be prudent in 2023, by controlling the growth in nationally financed primary current expenditure, while allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine. Moreover, Member States' fiscal plans for next year should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic. Fiscal policy should also stand ready to adjust current spending to the evolving situation. On 11 July, the Eurogroup adopted a statement on the budgetary situation in the euro area and fiscal policy orientations for 2023, in which the Ministers called to focus fiscal support on the most vulnerable, and that the measures are temporary, targeted and not stimulating further demand for energy.

Agreement on policy-contingent debt measures for Greece. On 23 May 2022, the Commission adopted the 14th enhanced surveillance report for Greece ⁽¹⁰⁷⁾. The report assesses Greece's progress on policy commitments made at the Eurogroup in June 2018. On 16 June, the Eurogroup welcomed the EU institutions' assessment that Greece had met the conditions needed to release the seventh tranche of policy-contingent debt measures, worth EUR 748 million. The Eurogroup also welcomed the Commission's intention not to prolong enhanced surveillance after its expiration on 20 August 2022, given the successful delivery of the bulk of Greece's policy commitments.

Preparations to enable Croatia to adopt the euro. On 1 June 2022, the Commission adopted the 2022 convergence report assessing the progress that Bulgaria, Czechia, Croatia, Hungary, Poland, Romania and Sweden had made in joining the euro area ⁽¹⁰⁸⁾. The report concluded that Croatia was ready to adopt the euro on 1 January 2023, bringing the number of euro area Member States to 20. In particular, Croatia fulfils the four nominal convergence criteria (on price stability, public finances, exchange rate, and long-term interest rate) and its legislation is fully compatible with the requirements of the Treaty on the Functioning of the EU and the Statute of the European System of Central Banks / European Central Bank (ECB). The ECB's own convergence report complemented the Commission's assessment ⁽¹⁰⁹⁾. On 16 June, the Eurogroup recommended that Croatia become the 20th member of the euro area. The process was concluded on 12 July when the Economic and Financial Affairs Council adopted the three legal acts that were necessary to enable Croatia to introduce the euro, ⁽¹¹⁰⁾ including the act setting the conversion rate between the euro and the Croatian kuna at 7.53450 kuna per 1 euro.

⁽¹⁰⁷⁾ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/which-eu-countries-have-received-assistance/financial-assistance-greece_en

⁽¹⁰⁸⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3312

⁽¹⁰⁹⁾ <https://www.ecb.europa.eu/pub/convergence/html/index.en.html>

⁽¹¹⁰⁾ <https://www.consilium.europa.eu/en/meetings/ecofin/2022/07/12/>