

Annex. – The euro area chronicle

The European Commission, the Ecofin Council and the Eurogroup regularly take decisions that have a bearing on the functioning of the Economic and Monetary Union (EMU). In order to keep track of the most relevant decisions, the QREA features a chronicle of major legal and institutional developments, presented in a chronological order and containing appropriate references. This issue of the chronicle covers developments between early December 2021 and the end of February 2022. In December, the Ministers of Finance of the euro area Member States concluded that Greece met the conditions necessary for the implementation of further policy-contingent debt measures, and the Commission proposed new own resources for the EU budget. Starting from the end of 2021, first funds have been disbursed to Member States under the Recovery and Resilience Facility ⁽¹²³⁾.

Agreement on policy-contingent debt measures for Greece. On 6 December, the Eurogroup welcomed the assessment by the European institutions that Greece met the conditions necessary for the release of the sixth tranche of policy-contingent debt measures, worth EUR 767 million ⁽¹²⁴⁾. The Eurogroup welcomed the further policy reforms implemented in the challenging circumstances of the Covid-19 pandemic and the catastrophic fires in August 2021, in particular, the fulfilment of the specific commitment in the area of public financial management and the adoption of anti-trust remedies in the energy sector. Furthermore, Greece has achieved good progress in the simplification of investment licensing, privatisation and governance of state-owned enterprises, social welfare and public administration. The Eurogroup encouraged the Greek authorities to continue and advance their efforts with regard to financial sector reform and clearance of arrears, while noting delays in the areas of justice and health. Since August 2018, after Greece successfully completed its European Stability Mechanism (ESM) programme, it has been monitored under the enhanced surveillance framework. The quarterly reporting provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. Should the European Commission decide to end the enhanced surveillance, Greece would transit to bi-annual post-programme surveillance, coming on top of surveillance under the European Semester.

Proposal of new own resources for the EU budget. On 22 December, the European Commission proposed three new sources of revenue for the EU budget. The first own resource would be based on revenues from the EU Emissions Trading (ETS), in the context of its revision under the Fit-for-55 proposals. The second would draw on the resources generated by the proposed EU carbon border adjustment mechanism. The third would be based on the share of residual profits from very large and profitable multinationals that would be re-allocated to EU Member States under the recent OECD/G20 agreement on a re-allocation of taxing rights. In the years 2026-2030, these new sources of revenue would generate on average a total of up to EUR 17 billion annually for the EU budget. The new own resources would help to repay the funds raised by the EU to finance the grant component of NextGenerationEU, including the Recovery and Resilience Facility (RRF). The RRF is a temporary recovery instrument that allows the Commission to issue debt on behalf of the Union to help Member States implement reforms and investments. Although it is an EU instrument, the RRF is expected to improve the functioning of the euro area as it fosters economic convergence by design. The European Commission is now working with the European Parliament and the Council, where unanimity is needed, towards a swift implementation of the package.

First recovery fund disbursements to Spain, France, Greece and Italy. Until 17 January 2022, 18 Member States have received pre-financing of their recovery and resilience plans under the RRF (13% of the amounts requested) for a total of EUR 54.2 billion. To fund the plans, the European Commission borrowed EUR 71 billion through long-term instruments and EUR 28 billion through short-term

⁽¹²³⁾ Annex compiled by Jakub Wtorek. The cut-off date for this annex is 25 March 2022.

⁽¹²⁴⁾ See Eurogroup statement on Greece of 6 December 2021: <https://www.consilium.europa.eu/en/press/press-releases/2021/12/06/eurogroup-statement-on-greece-of-6-december-2021/>

instruments on the financial markets. On 11 November 2021, Spain submitted to the Commission a payment request for the first instalment under its recovery and resilience plan based on the achievement of the 52 milestones. The milestones cover reforms in the areas of sustainable mobility, energy efficiency, decarbonisation, connectivity, public administration, skills, education and social, research and development, labour and fiscal policy, as well as Spain's audit and control system for the implementation of the RRF. On 3 December 2021, the European Commission adopted a positive preliminary assessment of Spain's request ⁽¹²⁵⁾. Following the discussion between the Member States, including in the Economic and Financial Committee, the Commission transferred EUR 10 billion before the end of 2021. A similar process was followed after France submitted its request on 26 November 2021. Based on progress in the area of public finance, mobility, housing, unemployment insurance, skills and health, EUR 7.4 billion was paid to France ⁽¹²⁶⁾. At the end of 2021, payments request of Greece and Italy were received for assessment. The Greek request for EUR 3.6 billion (of which EUR 1.7 billion of grants and EUR 1.9 billion of loans) covers reforms and investments in the areas of energy efficiency, electric mobility, waste management, labour market, taxation, business environment, healthcare, or public transport ⁽¹²⁷⁾. The Italian request for EUR 21 billion (of which EUR 10 billion of grants and EUR 11 billion of loans) covers reforms in the areas of public administration, public procurement, justice, the spending review framework, tertiary education, or active labour market, and also investments in the field of digitalisation of businesses, energy efficiency and renovation of residential buildings ⁽¹²⁸⁾.

IMF report on euro area policies. On 7 February, the IMF published its Article IV report following the 2021 consultations with the euro area authorities ⁽¹²⁹⁾. The report finds that during the pandemic, economic policies in the euro area have forcefully supported household incomes and protected corporate balance sheets. The challenge now is to coordinate the normalisation of economic policy in the face of elevated uncertainty. Once the expansion is firmly underway, highly indebted countries in particular will need to reduce their debts. Under the baseline, medium-term inflation dynamics are expected to remain weak, but upside inflation risks have clearly increased. Some euro area countries could tighten their macroprudential stance given stretched asset valuations, especially in real estate markets. The labour market recovered rapidly but unevenly across sectors. Structural reforms and investment envisioned in the Next Generation European Union package are crucial to enhance resilience, support the green and digital transitions, and boost potential growth.

Fiscal guidance for euro area Member States. On 2 March, the European Commission adopted a communication providing EU Member States with guidance on the conduct of fiscal policy in 2023 ⁽¹³⁰⁾. It sets out the key principles that will guide the Commission's assessment of Member States' stability and convergence programmes. The principles include the need to ensure policy coordination and debt sustainability, fostering investment, making fiscal strategies differentiated between countries and consistent with a medium-term approach, while taking into account the euro area dimension. The communication also draws implications for fiscal recommendations, which the Commission will propose to Member States in May 2022 for their budgetary plans in 2023. Finally, the communication provides an overview of the state of play on the economic governance review.

⁽¹²⁵⁾ https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6597

⁽¹²⁶⁾ https://ec.europa.eu/commission/presscorner/detail/en/ip_22_576

⁽¹²⁷⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_1354

⁽¹²⁸⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_1356

⁽¹²⁹⁾ <https://www.imf.org/en/News/Articles/2022/02/07/cf-euro-area-is-recovering-strongly-but-challenges-lie-ahead>

⁽¹³⁰⁾ European Commission, "Fiscal policy guidance for 2023", COM(2022)85 final. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/fiscal-policy-guidance-2023_en