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, presented in chronological order with references. This issue covers developments between mid-March and end-June 2023.

Reform of bank crisis management and deposit insurance framework. On 18 April 2023, the European Commission adopted proposals to adjust and further strengthen the existing EU bank crisis management and deposit insurance (CMDI) framework. ([120]) The proposals will enable authorities to organise an orderly market exit for failing banks of any size and business model, including smaller players. Overall, the proposal is designed to preserve financial stability, protect taxpayers and depositors, and increase the efficiency of the crisis management framework for the economy.

New economic governance rules fit for the future. On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. ([121]) The central objective of these proposals is to strengthen public debt sustainability while promoting sustainable and inclusive growth in all Member States through reforms and investment. In particular, the Member States' fiscal strategy would be based on a medium-term net expenditure path anchored on debt sustainability. The proposals take into account the need to reduce the high public debt levels, build on the lessons learned from the EU policy response to the COVID-19 crisis, and prepare the EU for future challenges by supporting progress towards a green, digital, inclusive and resilient economy and making the EU more competitive.

Economic and fiscal policy guidance. On 24 May, the Commission adopted the European Semester package providing guidance to Member States to build a robust and future-proof economy that secures competitiveness and long-term prosperity for all in the face of a challenging geopolitical environment. This year, the country-specific recommendations include: i) a fiscal policy recommendation, including, where relevant, fiscal-structural reforms; ii) a recommendation to continue or accelerate the implementation of RRPs, including their revisions and the integration of REPowerEU chapters, and to swiftly implement the adopted cohesion policy programmes; iii) an updated and more specific recommendation on energy policy in line with the REPowerEU objectives; and iv) where relevant an additional recommendation on outstanding and/or newly emerging structural challenges. As regards fiscal policy, the Commission provided quantified and differentiated recommendations for 2024 as the period of activation of the general escape clause ends at end-2023. ([122]) These recommendations establishe the maximum growth rates for net primary expenditure. The Commission also called on Member States, to i) preserve nationally financed public investment and ensure the effective absorption of grants under the RRF and other EU funds; and ii) wind down the energy support measures in force by the end of 2023 unless renewed energy price increases require support measures. For the period beyond 2024, Member States should continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, which, combined with investments and reforms conducive to higher sustainable growth, allows to achieve a prudent medium-term fiscal position. In the context of the same package, the Commission also assessed the existence of macroeconomic imbalances for 13 euro-area Member States. ([123]) The Commission concluded that, after experiencing excessive imbalances until 2022, Cyprus is now experiencing imbalances, as vulnerabilities related to private, government and external debt remain a concern even if overall they have declined. Germany, Spain, France, Portugal, and the Netherlands, continue to experience imbalances. Vulnerabilities are receding in Germany, Spain, France, and Portugal to the extent that a continuation of these trends next year would provide ground for a decision of no imbalances. Greece and Italy continue to experience excessive imbalances, but their vulnerabilities appear to be receding also due to policy progress. Estonia, Latvia, Lithuania, Luxembourg, and Slovakia are not found to be experiencing

([120]) https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2250
([121]) https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/economic-governance-review_en
([122]) https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2872
([123]) https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/macroeconomic-imbalance-procedure/depth-reviews_en

imbalances as their vulnerabilities seem overall to be contained at present. Finally, the latest post-programme surveillance reports for Ireland, Greece, Spain, Cyprus and Portugal, conclude that all five Member States retain the capacity to repay their debt. (124)

After Estonia, five other euro area Member States submitted the REPowerEU chapters to add to their RRPs. Following **Estonia (on 9 March (125),** France submitted its REPowerEU chapter on 20 April, covering measures related to energy efficiency in buildings, the net-zero industry and non-fossil hydrogen. (126) On 26 April, Slovakia and Malta submitted a similar request. (127) Slovakia's updated plan includes in particular reforms in support of renewable energy sources, including geothermal energy and the hydrogen sector, transformative investments in the electricity grid and energy efficiency, as well as in support for transport sector and households at risk of energy poverty. For Malta, the REPowerEU chapter includes a reform aiming at accelerating the permitting of renewable energy projects and introducing an obligation to install rooftop solar panels on new buildings, and an investment targeted at upgrading and expanding the electricity grid's capacity. On 26 May, Portugal submitted its REPowerEU chapter, with reforms and investments focusing on energy efficiency in buildings, renewables and biogas, sustainable transport, the electricity grid and green industry. (128) A transformative REPowerEU chapter was also submitted by Spain on 6 June, covering both reforms and investments, aimed at further weaning the country off Russian fossil fuels. (129)

Disbursements under the Recovery and Resilience Facility to Slovakia and Luxembourg. On 22 March, €709 million of grants under the RRF were disbursed to Slovakia, following a positive preliminary assessment adopted by the Commission on 8 February. (130) This pertains to a payment request submitted by Slovakia on 25 October 2022 concerning the second instalment. It covers reforms and investments regarding the circular economy, in the education and healthcare systems, in the governance of Research & Innovation activities, in schemes to attract skilled workers, as well as in the digital economy, public procurement and the fight against corruption. This second payment request also covers investments aimed at the protection of nature and biodiversity and at improving digital skills. On 16 June, €20.2 million of grants under the RRF were disbursed to Luxembourg, after a positive preliminary assessment adopted by the Commission on 28 April. (131) This concerns a payment request submitted by Luxembourg on 28 December 2022 regarding the first instalment. It includes a reform aimed at increasing the supply of affordable rental housing, the digitalisation of the public sector and green mobility measures. The milestones and targets also confirm progress towards the completion of investment projects related to ultra-secure communication, the upskilling of the workforce and the digitalisation of health. By the end of June, about €99 billion of grants and €44 billion in loans were disbursed under the RRF to euro area Member States. (132)

The Commission adopted legislative proposals to support the use of cash and to propose a framework for a digital euro. On 28 June, the Commission put forward a legislative proposal on the legal tender of euro cash to safeguard the role of cash, to ensure it is widely accepted as a means of payment and remains easily accessible for people and businesses across the euro area. (133) In addition, the Commission proposed the legal framework for a possible digital euro as a complement to euro banknotes and coins. The digital euro would ensure that people and businesses have an additional choice – on top of current private options – that allows them to pay digitally with a widely accepted, cheap, secure and

(124) https://commission.europa.eu/publications/2023-european-semester-spring-package_en
(125) https://ec.europa.eu/commission/presscorner/detail/de/mex_23_1590
(126) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_2406
(127) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_2483
(128) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_2945
(129) https://ec.europa.eu/commission/presscorner/detail/es/mex_23_3123
(130) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_1821
(131) https://ec.europa.eu/commission/presscorner/detail/en/mex_23_3322
(132) Including prefinancing.
(133) https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3501

resilient form of public money in the euro area, complementing the private solutions that exist today. This proposal establishes the r the digital euro and regulates its essential aspects, including establishment and issuance, legal tender, financial stability, privacy, international use, distribution and compensation. However, it will ultimately be for the European Central Bank to decide if and when to issue the digital euro.