



Valdis DOMBROVSKIS

Executive Vice-President of the
European Commission

Paolo GENTILONI

Member of the European Commission
Economy

Brussels, 19. 09. 2020
PL//as Ares (2020)S- 5606858

Mr João LEÃO
Minister of State and Finance
Ministry of Finance
Av. Infante D. Henrique, 1
1149-009 Lisboa

Dear Minister,

Since the start of the COVID-19 crisis, we have taken unprecedented measures at both national and EU level, acting in solidarity and unity. Three EU safety nets to protect workers and businesses have been set up. Member States have taken sizeable budgetary measures that have helped to effectively address the pandemic, sustain the economy and support the ensuing recovery. Discussions on the Multiannual Financial Framework for 2021-2027 and Next Generation EU are well advanced and we are hopeful that the key instruments will be operational as of the beginning of next year.

Our debates in the Eurogroup and Ecofin on 11/12 September reconfirmed a large degree of consensus on the appropriate fiscal policy orientations for 2021. Following up on these debates and on the Annual Sustainable Growth Strategy 2021, this letter provides additional guidance for the preparation of the draft budgets for 2021.

Member States' fiscal policies should continue to support the recovery throughout 2021. In light of this need and of the high prevailing uncertainty both regarding the development of the pandemic and its socio-economic consequences, the general escape clause, which was activated in agreement between the Commission and the Council in March and does not suspend the procedures of the Pact, will remain active in 2021 as indicated in the Annual Sustainable Growth Strategy 2021. When economic conditions allow, it will be time to pursue fiscal policies aimed at achieving prudent medium term fiscal positions.

As there are major differences regarding the economic, social and fiscal situation across Member States, support measures should be tailored to the specific situation. They should be well-targeted and temporary and their use and effectiveness should be regularly reviewed. Depending on the development of the pandemic, emergency measures may need to be

adjusted and combined with measures that improve the fundamentals of our economies, support the green and digital transition and have a positive impact on demand.

Fiscal policy planning for 2021 should to the largest possible extent take into account the implementation of the reforms and investments envisaged under the Recovery and Resilience Facility (RRF). Given those interactions, we would invite you to provide information on RRF-related revenue and expenditure included in your budgetary plans.

We suggest to keep our fiscal policy orientations under regular review. A first occasion to do so will be later this year when the Commission will monitor the development of general government deficit and debt, based on its autumn forecast, and when we will discuss the Opinions on the Draft Budgetary Plans of the euro area Member states and the euro area recommendations. The Commission will pay particular attention to the quality of the budgetary measures taken and planned to cushion the impact of the crisis, support the recovery and strengthen resilience, while taking into account fiscal sustainability considerations. The assessment will also cover the possible impact of guarantees provided by the government.

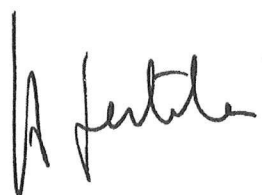
In spring 2021, taking into account updated macroeconomic projections, we will reassess the situation and take stock of the application of the general escape clause.

We hope that these clarifications will facilitate the preparation of your budgets and contribute to a continued strong coordination of budgetary policies in 2021.

Yours faithfully,



Valdis DOMBROVSKIS



Paolo GENTILONI