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 (EMU) 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-September 2022 and mid-December 2022. Over the autumn, further Recovery and Resilience Facility (RRF) funds were disbursed while the Commission proposed to review macroeconomic surveillance rules in the euro area (and the EU) and adopted guidance to Member States for the conduct of their economic policy in 2023 ([132]).

Recovery fund disbursements to Italy and Cyprus. In the fourth quarter of 2022, the Commission continued to transfer funds under the Recovery and Resilience Facility (RRF). On 28 June 2022, Italy submitted to the Commission the second payment request based on the achievement of the 45 milestones and targets. They cover reforms in the areas of public employment (as part of a broader reform of public administration), public procurement, the teaching profession, tax administration and territorial healthcare. The payment request includes investments in key policy areas including ultra-broadband and 5G, research and innovation, tourism and culture, hydrogen, urban regeneration and the digitalisation of schools. This payment request also includes an investment to support the reform of the justice system and reduce the backlog of cases. On 27 September, the Commission adopted a positive preliminary assessment of Italy's request ([133]). Following the Economic and Financial Committee's opinion and agreement in the Economic and Financial Affairs Council, the Commission transferred EUR 21 billion to Italy, of which EUR 10 billion in grants and EUR 11 billion in loans. A similar process was followed with Cyprus. On 28 July 2022, Cyprus submitted its request for EUR 85 million in grants under the RRF. On 25 October, based on progress in reforms and investments in the electricity market, energy efficiency, circular economy, anti-corruption and transparency, measures in the financial sector, public administration, digital skills, as well as Cyprus' audit and control system for the implementation of the RRF, the Commission endorsed a positive preliminary assessment of the request ([134]).

Recovery fund disbursements to Greece and Portugal. A similar process was followed with Greece and Portugal. On 30 September 2022, Greece submitted to the Commission the second payment request based on the achievement of the 28 milestones and targets. They cover reforms and investments promoting the use of renewable energy, re-organising the railways sector, or opening up the public bus transportation market to improve services and to promote a greener bus fleet. They also support the digital transformation of small and medium-sized enterprises, interconnecting payment terminals with the tax administration, encouraging small companies to grow and export, enhancing the supervision of capital markets, creating new funding opportunities for research and encouraging new investments in the tourism, manufacturing and agriculture sectors. On 25 November, the Commission adopted a positive preliminary assessment of Greece's request ([135]). Following the Economic and Financial Committee's opinion and agreement in the Economic and Financial Affairs Council, the Commission transferred EUR 3.6 billion to Greece, of which EUR 1.7 billion in grants and EUR 1.9 billion in loans. Portugal also submitted its second request on 30 September 2022, and it was positively assessed by the Commission on 16 December ([136]). The request was based on the achievement of the 20 milestones and targets, which cover reforms in the areas of management of public hospitals and the digital transition in the private and public sectors. Several milestones and targets also concern major investments in the areas of health, forestry, water management, social protection, innovation, sustainable mobility, digital skills, culture, public finances and public administration. Following the Economic and Financial Committee's opinion and agreement in the Economic and Financial Affairs Council, the Commission transferred EUR 1.8 billion of grants and loans to Portugal.

([132]) Annex compiled by Jakub Wtorek. The cut-off date for this annex is 31 January 2023.
([133]) https://ec.europa.eu/commission/presscorner/detail/en/ip_22_5663.
([134]) https://ec.europa.eu/commission/presscorner/detail/en/IP_22_6333.
([135]) https://ec.europa.eu/commission/presscorner/detail/en/IP_22_7150.
([136]) https://ec.europa.eu/commission/presscorner/detail/da/ip_22_7710.

Review of macroeconomic surveillance rules. On 9 November 2022, the Commission presented its communication outlining the orientations for the reform of the economic governance framework ([137]). Improving national ownership, simplifying the framework, and moving towards a greater relevance of the medium-term focus, combined with stronger and more coherent enforcement, are key elements in the Commission's orientations. The communication aims to improve government debt sustainability and promote sustainable growth. The communication also proposes a more effective framework to detect and correct macroeconomic imbalances, as well as a more focused and streamlined post-programme surveillance that assesses the repayment capacity of Member States that have benefited from financial assistance programmes. The communication will feed into debate within the Council and with the European Parliament, with a view to reaching a broad consensus on the future design of the macroeconomic surveillance rules. While the framework is applied in the whole EU, it recognises the rationale for stronger rules within the monetary union, as euro area countries experience higher potential for spillovers due to, among other things, a common monetary policy.

Guidance for Member States on the economic policy. On 22 November, the European Commission adopted the so-called autumn package of the European Semester: a set of documents kicking off the annual cycle of economic policy coordination ([138]). The package includes: the Annual Sustainable Growth Survey, the Alert Mechanism Report, the Commission proposal for a Joint Employment Report, the proposal for a euro area recommendation as well as a set of country-specific documents related to fiscal policy guidance and to surveillance for euro area Member States that had exited financial programmes. The Annual Sustainable Growth Survey outlines the economic and employment policy priorities for the EU for the coming 12 to 18 months. The survey is articulated around four overarching policy objectives: environmental sustainability, productivity, fairness, and resilience. This year's survey put forward an agenda to coordinate EU policy responses to mitigate the negative impacts of energy shocks in the short term, and to continue increasing social and economic resilience and fostering sustainable and inclusive growth in the medium term. The Alert Mechanism Report assesses economic developments to identify Member States that may require the Commission to undertake in-depth reviews to detect if those Member States may be affected by macroeconomic imbalances. This year's report concludes that economic developments in thirteen euro area Member States require an in-depth review: Cyprus, France, Germany, Greece, Italy, the Netherlands, Portugal and Spain (which had all been subject to an in-depth review and found with imbalances or excessive imbalances in the previous annual cycle of Macroeconomic Imbalance Procedure surveillance), as well as Estonia, Latvia, Lithuania, Luxembourg and Slovakia (which were not subject to an in-depth review in 2021/2022).

A recommendation for actions to address key challenges in the single currency area. The recommendation for the euro area proposed by the European Commission presents tailored advice to euro area Member States on those topics that affect the functioning of the euro area as a whole. It recommends that euro area Member States take action over 2022-23, individually and collectively within the Eurogroup, to coordinate fiscal policy, which supports the timely return of inflation to the ECB's 2% medium-term target, and which targets fiscal measures to address the impact of high energy prices. Euro area Member States should sustain public investment for the green and digital transitions and energy security. The recommendation highlights the importance of fostering wage developments and social policies that limit the loss in purchasing power of wage-earners, while reflecting medium-term productivity developments and limiting second-round effects on inflation. The recommendation calls for supporting the business sector in the context of the energy crisis in a cost-effective, temporary, and targeted way, and for improving selected elements of business environment (e.g., insolvency frameworks), and preserving macro-financial stability.

Opinions on draft budgetary plans of euro area Member States. The European Commission also adopted 20 opinions assessing the compliance of draft budgetary plans for 2023 with the fiscal policy recommendations adopted by the Council in June 2022. Under the fiscal recommendations for 2023, low

([137]) COM (2022) 583 final, https://economy-finance.ec.europa.eu/system/files/2022-11/com_2022_583_1_en.pdf.
([138]) https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7072.

and medium-debt Member States should ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance. High-debt Member States were recommended to ensure prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth. For the first time, an opinion was also adopted on the Croatian budget considering Croatia's accession to the euro area in 2023.

Post-programme surveillance reports. The reports assess the repayment capacity of euro area Member States that have benefited from financial assistance programmes. The post-programme surveillance reports for Ireland, Greece, Spain, Cyprus and Portugal conclude that all five Member States retain the capacity to repay their debt. The report for Greece was the first one prepared for the country, following the end of the enhanced surveillance framework in August 2022. The report finds that Greece has taken the necessary actions to complete its specific commitments, despite the challenging circumstances due to Russia's war of aggression against Ukraine. This report could serve as a basis for the Eurogroup to decide on the release of a final tranche of policy-contingent debt measures agreed in June 2018.