European Parliament

EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

Economic Dialogue with the President of the ECOFIN

ECON Committee on 18 November 2024

***Mihály Varga**, Minister of Finance and Deputy Prime Minister, of Hungary is participating in the ECON Committee in his capacity of President of the ECOFIN Council during the Hungarian Presidency (July - December 2024). In accordance with the Treaty of the Union, "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council".*
This document provides an overview of the Hungarian Presidency priorities in ECON matters, including the Council's work relating to the implementation of the European Semester for economic coordination, including the application of the Recovery and Resilience Facility, and other policy streams relevant to the EU single market, notably progress on the Banking Union and the Capital Markets Union.

1. ECON priorities of the Hungarian Presidency

The Hungarian Presidency's priorities in the Economic and Financial Affairs Council:

According to the Hungarian Presidency programme, "[the] *Hungarian Presidency, will promote dialogue about EU-level solutions that may help us implement the reforms and investments serving the green and digital transition effectively and sustainably, as well as a substantive improvement in the competitiveness of the European economy, despite the shrinking fiscal opportunities resulting from additional crisis management burdens in recent years. While taking into account the different characteristics of the Member States and respecting national competences, we want to focus our joint efforts on those areas where EU action has real added value at the European level, contributing to macroeconomic stability and the well-being of our citizens while also increasing the resilience of our economies.*

***ECONOMIC POLICY**: The multifaceted and complex challenges and external risks faced by the European economy require frameworks that ensure fiscal discipline, the financial resources for productive investments, and essential reforms for sustainable growth in a credible manner, without harming the integrity of the internal*

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market or the principle of equal treatment among Member States. With this in mind, we will prioritise the implementation of the new rules of the reformed economic governance framework.

The guidelines for the effective preparation and evaluation of the national medium term fiscal-structural plans to be submitted in the autumn must be made available as soon as possible. To this end, open questions related to the content of the Member States' plans and the application of the new rules must be closed as soon as possible. The next cycle of the European Semester is also to be launched in accordance with the new rules. The adoption of the autumn package (including the Annual Sustainable Growth Survey where Council Conclusions are foreseen) will provide an opportunity to put more emphasis on European competitiveness, highlighting initiatives and messages that improve productivity while strengthening the macroeconomic focus of the Semester. Its importance is obvious, since the productivity and innovation gap between the Union and its global competitors has become even more visible as a result of the war.

The exchange of views at the informal ECOFIN meeting will also contribute to strategic discussions aimed at improving competitiveness through the review of the fiscal challenges related to demographic trends.

In parallel, the Hungarian Presidency will closely monitor the economic and financial consequences of the war in Ukraine and it will continue speeding up the effective implementation of the Recovery and Resilience Facility.

***ANNUAL BUDGET**: The goal of the Hungarian Presidency is to ensure the implementation of the 2024 EU budget and the timely adoption of the 2025 EU budget to secure stable and continuously available budgetary resources for the implementation of EU policies.*

***NEW OWN RESOURCES**: We consider it important that the EU budget has a predictable, transparent and simple revenue side. Therefore, we wish to ensure that these aspects are considered when examining the Commission's proposals for new own resources.*

***FINANCIAL SERVICES**: It is in our common interest to ensure that financial rules provide a clear response to the challenges of our time, and that we continue to guarantee financial stability. That is why we aim to advance the ongoing negotiations. Building on the work of previous presidencies, we will continue the negotiations on all seven ongoing legislative packages, and we intend to advance discussions on the future of the Capital Markets Union in line with the guidelines of the European Council. In this regard, the Hungarian Presidency is committed to increasing access to finance for small and medium-sized enterprises and reducing the administrative burden on businesses. In the area of the Banking Union, the focus is on the review of the crisis management and deposit insurance framework, with the aim of improving the efficiency of bank resolution. The legislative package promoting private investments, i.e. the Retail Investment Strategy, is a remaining high-priority file from the last CMU Action Plan. The Council is discussing a number of legislative packages reflecting the challenges and opportunities of digitalisation. In this area, the package on the payment services review, access to financial data and the digital euro are of particular importance. We will seek to start trilogue negotiations with the European Parliament on the regulations amending reporting requirements and the Benchmark regulation.*

***TAXATION:** As regards taxation, our objective is to effectively advance the discussions on the taxation files and international issues currently on the agenda, achieving progress which responds to the needs posed by new business models, international cooperation, and fiscal revenues. High-priority areas: fighting tax evasion, ensuring legal certainty for taxpayers, and supporting the international engagement of the European Union. In the area of taxation, we see an opportunity to enhance the competitiveness of European businesses through digitalisation, the efficient use of information, and simplification.*

***CUSTOMS ISSUES:** Concerning the customs union, in the context of the modernisation of the regulatory and governance framework, cross-presidency negotiations on a reform package promoting significant long-term transformation are on the agenda. The goals of the revision of the Union's Customs Code are the following: to introduce several simplifications facilitating customs procedures; to set up a common EU customs data hub; and* *to create a new EU customs authority that would help Member States focus their inspection capacities on the most important areas. Our priority is to continue this substantive debate to ensure that the emerging customs union is future-proof and capable of addressing the challenges of the coming decades more quickly and efficiently."*

Until today, three official ECOFIN meetings (16 July, 8 October and 5 November) have taken place in addition to an informal ECOFIN meeting that took place on 13-14 September 2024 in Budapest.

On 4 November, the Council presidency, the European Central Bank and the European Commission met with **European social partners** to discuss recent developments of the economic situation, as well as a thematic topic chosen by the Hungarian Presidency: "demographic changes impacting competitiveness".

During its latest **ECOFIN meeting on 5 November** the minister dealt with: EU tax issues, latest implementation of the Recovery and Resilience Facility (RRF), economic and financial impact of Russia's aggression against Ukraine, EU statistics, and annual report of the European Fiscal Board.

On **8 of November, EU leaders** adopted conclusions and called for all EU institutions, Member States and stakeholders to urgently implement and deliver this **New European Competitiveness Deal.**

According to the preliminary draft Council agendas the **last ECOFIN meeting on 10 December** will cover the following issues: EU tax issues, European Court of Auditors' annual report on the implementation of the EU budget in 2023, Implementation of the SGP (Medium-term fiscal-structural plans and recommendations under the excessive deficit procedure), European Semester 2025 package, latest implementation of the RRF, and the economic and financial impact of Russia's aggression against Ukraine.

Profile of the Minister

Photo: Council homepage.

Mihály Varga, Deputy Prime Minister and Minister of Finance
Personal data: • Karcag, 26 January, 1965 • Married, four children.
Professional experience:
as of 22 May 2018: Deputy Prime Minister
as of 18 May 2018: Minister of Finance
7 March 2013 -17 May 2018: Minister for National Economy
2 June 2012 - 6 March 2013: Minister without portfolio responsible for liaising with certain international financial organizations
29 May 2010 -1 June 2012: State Secretary of the Prime Minister's Office during the second Orbán Cabinet
2006–2010: Chairman of the Parliamentary Committee on Budgetary, Finance and Audit Affairs
2002–2006: Chairman of the Parliamentary Committee on Budgetary and Finance Affairs
2001–2002: Minister of Finance in the first Orbán Cabinet
1998–2000: Parliamentary State Secretary of the Ministry of Finance in the first Orbán Cabinet
1998: Chairman of Economic Committee, Member of Audit Committee
1996–1998: Member of Committee on Budgetary and Finance Affairs
1995–1997: External Lecturer of the College of Economics of Szolnok, Honorary College Professor
1995–1998: Member of the Audit Committee, President of the Commission of Inquiry on Borrower and Banking Consolidation
1992–1994: Member of the Audit Committee
1991–1994: Member of the Tax Committee, Member of the Ad-Hoc Committee for the Review of the Structure and Operation of the State Audit Office of Hungary
1990–1994: Member of the Parliamentary Committee on Budgetary, Taxation and Finance Affairs
1990: Economist at the East Hungary Water Management and Planning Company
1989: Auditor at the State Construction Company Nr. 43

Box 1: ECON related legislative files during the Hungarian Presidency

Inter-institutional negotiations on the below legislative proposals may now start following the EP's decision to continue the work of the previous legislature and to start trilogues:

- **Benchmark:** Scope of rules for benchmarks, use in the Union of benchmarks provided by an administrator located in a third country, and certain reporting requirements / 2023/0379(COD) Regulation
- **Better data sharing:** Amending certain financial services and investment support Regulations as regards certain reporting requirements / 2023/0363(COD) Regulation
- **Labour market statistics:** Labour market statistics on businesses (LMB) / 2023/0288(COD) Regulation
- **CMDI:** Early intervention measures, conditions for resolution and funding of resolution action (SRMR) / 2023/0111(COD) Regulation; Early intervention measures, conditions for resolution and financing of resolution action (BRRD) / 2023/0112(COD) Directive; Deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency (DGSD) / 2023/0115(COD) Directive
- **Retail investor strategy:** Union retail investor protection rules /2023/0167(COD) Directive; PRIIPs: modernisation of the key information document / 2023/0166(COD) Regulation

2. Country Specific recommendations under the 2024 European Semester Cycle

The **country-specific recommendations** (**CSRs) provide guidance to EU Member States on macro-economic, budgetary, employment and structural policie**s in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU).

The 2024 CSRs agreed by the Council in the context of the 2024 European Semester Spring Package comprise of

1) a **recommendation on fiscal policy (CSR-1),** including fiscal-structural reforms where relevant,

2) a recommendation for the **implementation of national Recovery and Resilience Plans** as well as **cohesion policy programmes (CSR-2)**, and

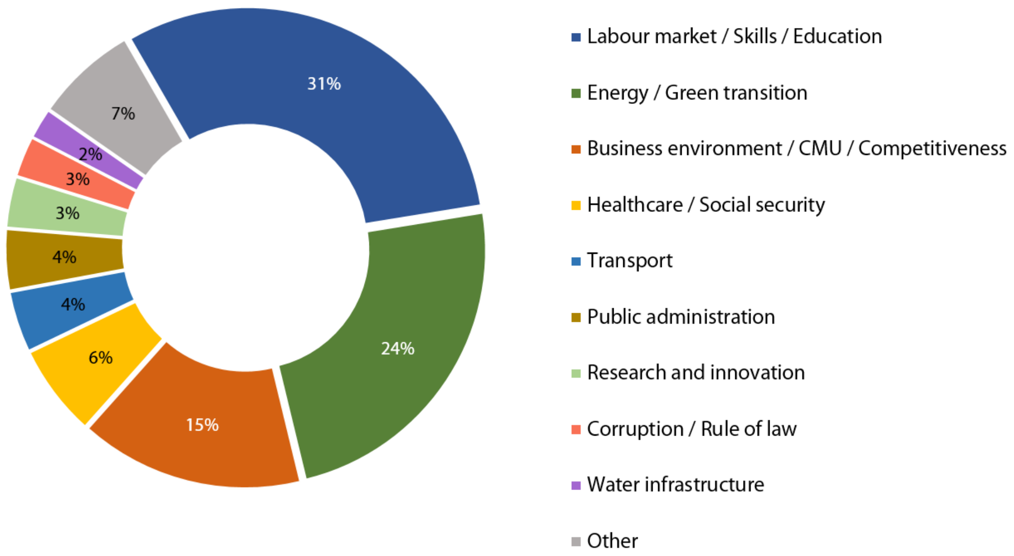
3) recommendations on **outstanding/emerging challenges with a focus on competitiveness (CSR-3 and CSR-4)**.

Box 2: The European Semester in the Draghi report

The Draghi report notes the limit of the European Semester when it comes to the EU-wide coordination of policies, proposing instead to amend it so that it would only focus on fiscal policy surveillance. Draghi explicitly criticises it for being *"largely bureaucratic (mainly producing reports) and ineffective in delivering relevant reforms at the EU level, favouring national initiatives under a common framework over true EU-wide coordination"*.

In Draghi's view, all other policies relevant for the competitiveness of the EU would be dealt with in a new Competitiveness Coordination Framework. This would focus only on EU-level strategic priorities defined by the European Council. They would then be collected in Action Plans by policy area with measurable objectives, made public and reviewed every year by relevant EU agencies to assess progress.

Figure 1: Outstanding and emerging challenges in key policy areas addressed by the CSR-3 and CSR-4

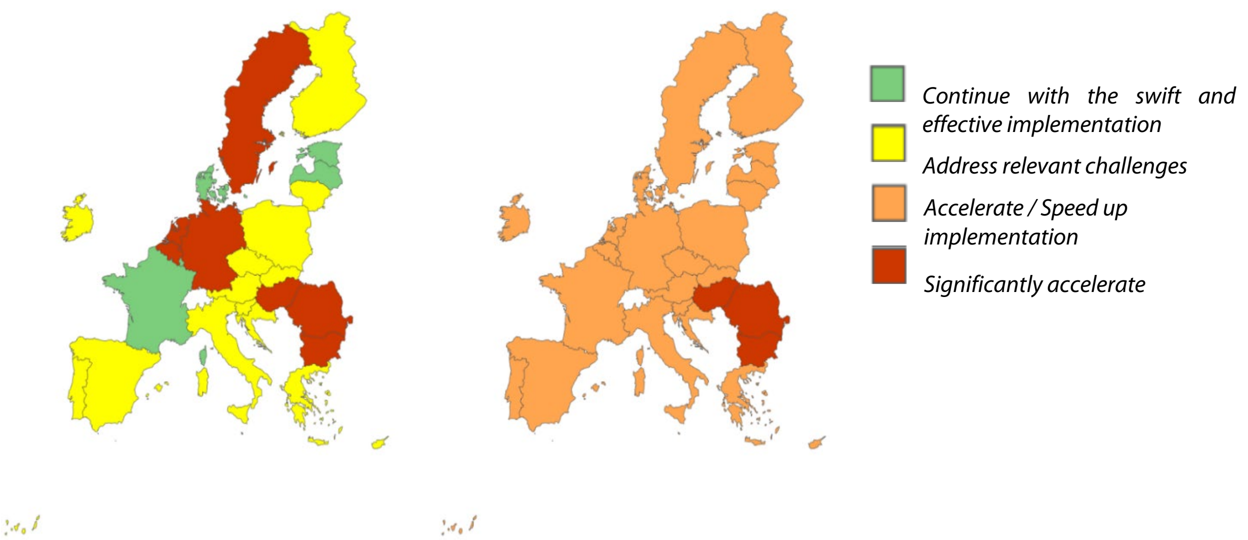


Note: EGOV elaboration based on the CSR3 and CSR4. Category "Other" includes Digitalisation, Agriculture, Environment, Cohesion, Demographics and Industry.

The **2024 CSR are the first adopted by the Council since the entry into force of the new economic governance framework** in April 2024 and therefore encourage Member States to timely submit their plans to rein in fiscal spending while pointing out potential areas for reforms in their plans. Importantly, the Commission clarified that "[i]*nstead of proposing annual fiscal policy recommendations, the Commission will focus on Member States' compliance with the multi-year net expenditure path"* .

The **2024 CSRs address the varying degree of implementation of the Recovery and Resilience Facility (RRF) prompting Member States to accelerate implementation where needed**. It also recommends Member State to speed up the implementation of cohesion policy in light of substantial delays and challenges in implementation vis-a-vis the RRF, possibly indicating a crowding out of cohesion policy due to RRF roll-out.

Figure 2: Recommendations on the RRPs (left map) and cohesion policy (right map) implementation according to the level of acceleration required



Note: EGOV elaboration based on CSR2.

Further reading:

- EGOV briefing: 2024 Country-specific recommendations Stylised facts and figures
- EGOV briefing: The implementation of country-specific recommendations under the European Semester cycles

3. Fiscal policy coordination: latest developments

3.1 The new EU fiscal framework and its transitory arrangements

The new EU fiscal governance framework, reformed under the Stability and Growth Pact (SGP), introduces significant changes aimed at ensuring fiscal sustainability and promoting inclusive growth. A key innovation is the requirement for Member States to submit national **medium-term fiscal-structural plans covering a four to five-year horizon**. These plans incorporate fiscal strategies, structural reforms, and investments, particularly focusing on EU priorities like the green and digital transitions. Central to the new framework is the single country-specific operational indicator, **the net expenditure path**, which replaces the previous set of rules. This path, based on debt sustainability analysis, serves as the primary tool for monitoring and surveillance. The framework also introduces flexibility with provisions for extending adjustment periods when significant reforms and investments are proposed[1].

Transitory measures are included in the new Regulations and are designed to provide flexibility and support to Member States, ensuring a smooth implementation of the new fiscal governance framework.

One key element among these provisions is **the European Commission's preliminary guidance published on 21 June 2024.** This guidance assists Member States in preparing their medium-term fiscal-structural plans. In terms of next steps in the application of the new framework, Member States must prepare and submit their **medium-term fiscal-structural plans by 20 September 2024**, unless a Member State and the Commission agree to extend that deadline by a reasonable period, **with a maximum extension to 15 October**, which is also the deadline for euro area Member States to provide their **Draft Budgetary Plan** (DBP). To ensure that the budgets for 2025 are the first step in implementing the medium-term fiscal-structural plans and to ensure full implementation from 2025 onwards, the Commission will assess medium-term fiscal-structural plans together with the DBPs for euro area Member States. Submissions of plans after the 20 September deadline are subject to an official exchange of letters between concerned Member States and the Commission.

To expedite the transition and reduce administrative burdens, Member States **are exempted in this first cycle from the obligation to consult relevant stakeholders** before submitting their plans for the first cycle. Furthermore, acknowledging the exceptional economic shocks and uncertainties of recent years, Member States are allowed to use more stable potential growth estimates than those derived from the commonly agreed methodology.

The **transitory arrangements also integrate commitments under the Recovery and Resilience Facility** when assessing requests for extensions of the adjustment periods. Member States can request extensions of up to three years for their adjustment periods if they commit to significant reforms and investments, particularly those aligned with EU priorities such as green and digital transitions, social resilience, and defence capabilities.

[1] See also EGOV briefing on The new EU fiscal framework

In its latest annual report, the EFB notes that while the reform's design features mark potentially significant progress, implementation will be crucial for its success. The Board points out that **mounting challenges** - including stronger defence and security needs, requirements for better resilience and competitiveness, and preparation for EU enlargement - could require additional annual investment of close to 1% of GDP from public budgets. The EFB also highlights a **major omission in the reform**: the absence of considerations on how to combine national fiscal efforts with joint EU initiatives to meet central objectives of economic governance, particularly in providing public goods with a European dimension.

3.2 Latest EU fiscal policy recommendations

The 2024 CSRs include fiscal policy related recommendation for each EU Member State (i.e. in the first CSR per Member State)[2][3]. These fiscal-related recommendations focus heavily on fiscal sustainability, structural reforms, and enhancing public finance management and take into account the implementation of the new fiscal framework by mentioning the need to submit the medium-term fiscal-structural plans in a timely manner. Also in line with the implementation of the new framework, most EU Member States are advised to limit the growth in net expenditure (see Annex 1 for more details).

For a smaller number of countries, an ad hoc fiscal recommendation on key structural measures is provided. The **sustainability of pension and healthcare systems is frequently addressed,** reflecting concerns about aging populations and the resultant strain on public finances. Countries including Austria, Belgium, Finland, and Poland are advised to reform these sectors to ensure long-term fiscal viability. Additionally, **reforms to tax systems to enhance incentives for work and reduce the tax burden on labour** are recommended for Belgium, Czechia, Germany, Italy, and Slovakia. This highlights a dual approach of improving fiscal prudence while fostering economic growth through strategic investments.

Some specific recommendations address unique national challenges. Notably Germany is encouraged to enhance public investment and remove obstacles to private investment to boost competitiveness and reform the first pillar pension system, while Ireland should focus on making the healthcare system more cost-effective. Luxembourg is urged to tackle aggressive tax planning, Malta is advised to introduce a withholding tax on outbound payments, and Sweden is recommended to address housing market imbalances and household debt by reducing the tax deductibility of mortgage interest payments. These unique recommendations highlight the diverse challenges faced by different EU economies and the need for tailored policy responses.

The European Fiscal Board (EFB) has assessed the fiscal stance appropriate for the euro area in 2025, advocating for a restrictive fiscal impulse. This recommendation is based on the anticipation that the euro area economy will operate near full capacity, with tight labour markets and inflation slightly above the ECB's target. The EFB underscores the need to address the underlying expenditure drift, particularly in Member States with high debt levels such as Belgium, Greece, Spain, France, and Italy. The Board emphasises that fiscal policies should protect investment while implementing significant restraint to improve the overall fiscal position, ensuring a smooth transition to the reformed EU fiscal framework. Based on the Commission's projections (summer 2024), under the assumption of no policy changes, the fiscal stance of the euro area is

[2] As previously noted, these "fiscal policy related CSRs" do not rely on the preventive arm of the SGP as their EU legal base. This is a change compared to the fiscal CSRs under the previous rules of the SGP. This may be a result of the transition to the revised rules where the fiscal recommendations for each Member States will be decided only following the adoption of the medium term fiscal structural plans.

[3] One may also note that Mario Draghi in his report on " THE FUTURE OF EUROPEAN COMPETITIVENESS" proposes a revamp of the European Semester: "*To achieve the vision of this report, it is proposed to modify the European Semester to only focus on fiscal policy surveillance, while the coordination of all other policies relevant to the EU's competitiveness would be merged into a new Competitiveness Coordination Framework. The Competitiveness Coordination Framework would only address EU-level strategic priorities – 'EU Competitiveness Priorities' – formulated and adopted by the European Council* (see Section PART B | SECTION 2 | CHAPTER 5).

expected to remain broadly neutral in 2025. However, with the implementation of the reformed fiscal framework, the euro area's fiscal stance is projected to be slightly contractionary in 2025, estimated to range from approximately 0.25% to 0.50% of GDP.

3.3 Excessive deficit procedures

The European Commission has conducted **an assessment of the budgetary situations in twelve EU Member States in accordance with Article 126(3) of the Treaty on the Functioning of the European Union.**

The analysis focused **on Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia, and Finland** due to their deficits exceeding or projected to exceed 3% of GDP in 2023 or 2024.

Following an evaluation of fiscal positions, including economic outlook, debt sustainability, and reforms, **the Commission proposed opening excessive deficit procedures for seven countries: Belgium, France, Italy, Hungary, Malta, Poland, and Slovakia.**

The decision not to include all twelve countries was based on factors such as **mitigating circumstances for Czechia and Estonia, a projected deficit reduction for Spain, and close monitoring of Slovenia and Finland, where deficits are expected to fall below 3% shortly**.

Romania, under the excessive deficit procedure since 2020, continues to be a concern as it has not effectively addressed its deficit. The latest assessments indicate that Romania's government deficit continues to exceed the 3% of GDP threshold, both for the past year and projected for the current year. Consequently**, the Commission has recommended that the Council acknowledge Romania's lack of effective action in response to previous recommendations**.

The Commission subsequently proposed to the Council in July to formally establish excessive deficits and set deadlines for corrective action for the seven countries.

On 26 July 2024, **the Council formally adopted decisions establishing the existence of excessive deficits for Belgium, France, Italy, Hungary, Malta, Poland and Slovakia**, in line with the Commission's proposals. This action officially launches the excessive deficit procedures for these seven Member States.

Additionally**, the Council confirmed that Romania, which has been under the excessive deficit procedure since 2020, has not taken effective action to correct its deficit**. As a result, the procedure for Romania will remain open, with the country subject to continued scrutiny and potential further recommendations.

3.4. Next steps

According to the Regulation, Member States are required to submit their **medium-term fiscal-structural plans** by 20 September 2024, with a possible extension until 15 October. The Commission then has six weeks (extendable by two weeks) to assess these plans. So far, 21 medium-term fiscal-structural plans have been submitted by Member States (Austria, Belgium, Bulgaria, Croatia, Germany and Lithuania are still missing)[4]. For plans submitted by mid-October, the Commission's assessment is expected at the end of November as

[4] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en

part of the Autumn Semester Package, which will include draft recommendations endorsing the plans and, where applicable, Excessive Deficit Procedure recommendations.

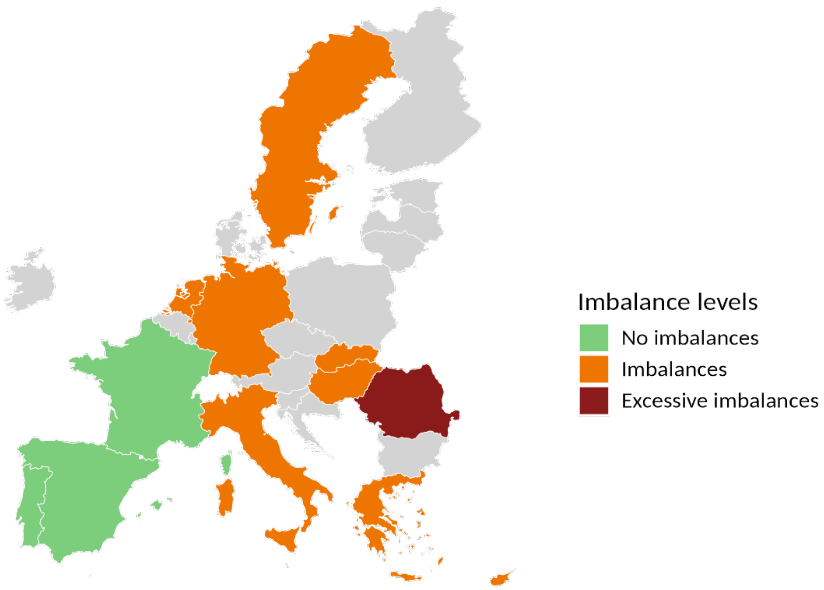
Euro area Member States must submit their **Draft Budgetary Plans** by 15 October 2024. To ensure coherence in the first year of the new framework, the Commission will assess these plans simultaneously with the medium-term fiscal-structural plans. This joint assessment will be included in the Autumn Semester Package expected in late November. As of 13 November 2024, only 16 Draft Budgetary Plans for 2025 have been submitted by Member States[5].

With the current **European Fiscal Board**'s mandate ending on 19 October 2024, a new appointment process is underway following the 7 August call for expressions of interest. After a 45-working-day application period and October interviews, the Commission will select candidates based on their analytical experience and competences. The proposed appointees must undergo a one-month consultation with the European Parliament and Council before their final appointment to a three-year term, renewable once. For further details on the role of the EFB please refer to the ad hoc EGOV briefing.

4. Macro-economic imbalances: latest developments

The 2024 Spring European Semester Spring Package also elaborated on the findings of the 12 in-depth reviews (IDRs) carried out for Member States identified to have potentially macroeconomic imbalances during the last Alert Mechanism Review (AMR) under the Macroeconomic Imbalances Procedure (MIP). In the 2024 cycle, 12 Member States were selected by the AMR as candidates for potential imbalance. Of them, **9 were concluded by the IDR to have some level of imbalances**, with CY, DE, EL, HU, IT, SK, SE, NL having imbalances and RO having excessive imbalances

Figure 3: Results from 2024 Commission's In-Depth Reviews on identified imbalances



Note: EGOV elaboration based on the Commission's IDRs. Possible outcomes from IDRs include: no imbalances, imbalances, excessive imbalances and excessive imbalances with corrective action.

[5] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2025_en

In three Member States, namely in Spain, France and Portugal, the Commission concluded that imbalances no longer existed. In five Member States, imbalances persisted over the past twelve months, namely in Cyprus, Germany, Hungary, the Netherlands, and Sweden; in Slovakia, new balances had emerged over last year; only one Member States, Romania, was found to exhibit excessive imbalance based on the analysis carried out in the twelve IDRs. The Romanian situation was driven by continuous high public expenditure levels more than any other driver.

On **16 July 2024, Council adopted its Conclusions on the 2024 in-depth reviews** praising the quality of the Commission analysis. The only noteworthy element of the conclusions is the explicit acknowledgement of the Commission's "clarification" (this is the term to be used from here on) concerning the priority of the SGP over the EDP in all cases where "risks are solely fiscal" (sic). This wording could be important as it appears somewhat more restrictive than the wording used by the Commission in the Semester summary document where the "clarification" is provided.[6]

Table 1: Change in imbalances identified by the In-Depth Reviews in 2024 and 2023

Country	MIP in 2023	MIP in 2024	Change
CY	Imbalances	Imbalances	
FR	Imbalances	No imbalances	
DE	Imbalances	Imbalances	
EL	Excessive imbalances	Imbalances	
HU	Imbalances	Imbalances	
IT	Excessive imbalances	Imbalances	
PT	Imbalances	No imbalances	
RO	Imbalances	Excessive imbalances	
SK	No imbalances	Imbalances	
ES	Imbalances	No imbalances	
SE	Imbalances	Imbalances	
NL	Imbalances	Imbalances	
CZ	No imbalances	*Not at risk of imbalances, according to the AMR*	
EE	No imbalances	*Not at risk of imbalances, according to the AMR*	
LV	No imbalances	*Not at risk of imbalances, according to the AMR*	
LT	No imbalances	*Not at risk of imbalances, according to the AMR*	
LU	No imbalances	*Not at risk of imbalances, according to the AMR*	

Note: EGOV elaboration based on the Commission' In-Depth Reviews. Possible outcomes from In-Depth Reviews include: no imbalances, imbalances, excessive imbalances and excessive imbalances with corrective action. Green colour indicates improvement, red colour indicates downgrade, and grey colour indicates no change.

Please see Annex 2 for a summary of the main country per country assessments.

[6] COM(2024) 600 final, page 7 (Box 2), as well as page 21 (Appendix 4), Brussels, 19.6.2024.

5. Implementation of the Recovery and Resilience Facility: latest developments

5.1 ECOFIN meetings in 2024: Main results related to the RRF

Public information about the discussion of the Recovery and Resilience Facility (RRF) in the Economic and Financial Affairs Council **is scarce**. The following cites the main results according to the Council's website:

- **Economic and Financial Affairs Council, 12 March 2024 (Source)**

  "*Ministers exchanged views on the state of play of the implementation of the Recovery and Resilience Facility (RRF). The Commission presented its mid-term evaluation of the RRF, taking stock of the progress achieved in implementing the facility so far.*

  The Council envisages to have a more extensive discussion and approve conclusions to provide steer and political impetus for the remaining implementation period of the RRF, in April."

- **Economic and Financial Affairs Council, 12 April 2024 (Source)**

  "*Ministers exchanged views and adopted conclusions on the implementation of the Recovery and Resilience Facility (RRF).*

  The conclusions take stock of progress achieved in implementing the RRF and serve as political guidance to the Commission and member states in the context of the mid-term evaluation of the RRF that the Commission submitted to the Council on 21 February 2024."

- **Economic and Financial Affairs Council, 14 May 2024 (Source)**

  "*Ministers exchanged views on the state of play of the implementation of the Recovery and Resilience Facility.*

  The Council adopted implementing decisions approving the modified recovery and resilience plans submitted by Italy and Spain."

- **Economic and Financial Affairs Council, 21 June 2024 (Source)**

  "*Ministers exchanged views on the state of play of the implementation of the Recovery and Resilience Facility.*

  The Council adopted an implementing decision approving the modified recovery and resilience plan, submitted by Ireland."

- **Economic and Financial Affairs Council, 16 July 2024 (Source)**

  "*Ministers took stock of the implementation of the Recovery and Resilience Facility (RRF).*

  The Council adopted an implementing decision approving Germany's modified recovery and resilience plan that includes a new REPowerEU chapter. This will contribute to accelerating Germany's transition towards clean energy by increasing the share of renewables in the German energy mix.

  The Council also approved updated plans submitted by Greece, Cyprus, Poland and Finland."

- **Economic and Financial Affairs Council, 8 October 2024 (Source)**

  "*Ministers took stock of the implementation of the Recovery and Resilience Facility (RRF).*

  To date, €267 billion have been disbursed, which represents over 41% of the overall committed amount, helping member states deal with various economic challenges.

  The Council adopted implementing decisions approving targeted modifications to Lithuania's and Portugal's recovery and resilience plans."

- **Economic and Financial Affairs Council, 5 November 2024 (Source)**

  "Ministers took stock of the implementation of the Recovery and Resilience Facility (RRF). To date, all RRPs have been approved, 70 payment requests have been received and more than €268 billion have been disbursed. The Council adopted implementing decisions approving targeted amendments submitted by Czechia and the Netherlands to their modified recovery and resilience plans."

Box 3: Council conclusions on the mid-term evaluation of the RRF
(citation from the Press release)

In its conclusions the Council

- recognises the positive contribution of the RRF to the green and digital transitions and other EU priorities, and notes the incentive to implement the Country Specific Recommendations, notably through an acceleration of structural reforms.

- welcomes that the RRF aims at strengthening national ownership and that the focus of the instrument is on delivery and implementation.

- agrees that the report comes too early to be able to deliver a fully-fledged impact evaluation of the RRF and looks forward to the final evaluation of the RRF, scheduled in 2028, to assess its full impact.

- invites the Commission and the member states to identify concrete ways to streamline and improve the implementation of the facility and the recovery and resilience plans, while ensuring the adequate protection of the financial interests of the Union.

- invites the Commission to continue to draw lessons from the implementation of the performance-based nature of this instrument, and

- underlines that the swift completion of investments and reforms by August 2026 remains key for achieving the full implementation of the facility.

5.2 Third Annual Report from the Commission on RRF implementation

On 10 October, the Commission published its **Third Annual Report** on the implementation of the RRF, which covers the period from 1 September 2023 until 31 August 2024. One section of that report is dedicated to the state-of-play, another to the progress that has been made across the six key policy areas, and a third specifically to REPowerEU aspects. Even though the implementation progress is somewhat heterogeneous across Member States, the Third Annual Report comes overall with a **positive message**: "*After some delays in 2023 largely linked to the need to adopt REPowerEU chapters, **implementation and disbursements have accelerated***" (Annex 3 for the number of payment requests processed so far).

Moreover, the Commission finds that the mid-term evaluation of the RRF confirmed the added value of the instrument, which combines reforms with investment, and of its performance-based approach (see related Council position in Box 3).

The implementation of the RRF frequently **requires decisions by the Council**. In the context of the EU's fiscal governance framework, the Third Annual Report for example explains that in case a Member State has not taken effective action to correct its **excessive deficit**, Article 10(1) of the RRF Regulation requires the Commission to make a proposal to the Council to suspend all or part of the relevant commitments or payments. On 19 June 2024, the Commission proposed such Council decision as Romania, under the excessive deficit procedure since 2020, had not delivered effective action to reduce its excessive deficit. Yet, as the EU was considered to be still in a situation of severe economic downturn in 2023, with the general escape clause of the SGP still activated, the Commission did not propose the suspension of commitments or payments of EU funds to Romania. On 26 July 2024, the Council adopted the decision that the excessive deficit procedure for Romania should remain open (also see section 3.3 above).

Changes to national Recovery and Resilience Plans likewise require Council decisions. In the past year, all Member States had submitted at least one request to modify their RRPs, 26 had submitted a REPowerEU chapter. However, 11 Member States had also made additional targeted revisions, which can be made where **objective circumstances** – e.g. high inflation or supply side bottlenecks – **make it impossible to achieve the original milestones and targets**. Any changes to the plans need to keep the implementation horizon in mind, given the time bound nature of the RRF until 2026, but they also must keep the **original ambition** of the RRP intact. From a **scrutiny perspective**, it might be interesting to learn more about those discussions in Council, in particular as regards whether the changes keep the original ambition of the respective RRP intact.

Box 4: The 2024 Rule of Law Report

On 24 July 2024, the Commission adopted its 2024 Rule of Law Report. Presents a synthesis of both the rule of law situation in the EU and an assessment of the situation in each Member State and enlargement countries.

The 2024 Rule of Law Report examines developments across all Member States, both positive and negative, in four key areas for the rule of law: the justice system, the anti-corruption framework, media pluralism and freedom, and other institutional issues related to checks and balances. It includes country chapters for all 27 Member States, which rely on a qualitative assessment carried out by the Commission, analyse new developments since the previous Report and the follow-up to the challenges and developments identified in the 2023 edition.

Since 2022, the Report includes concrete recommendations to all Member States. The analysis in the 2024 Report therefore also contains a qualitative assessment of the progress made by the Member States towards implementing the 2023 recommendations. The 2024 recommendations either build on last year's recommendations, depending on the progress made, or address new challenges. The recommendations aim to further assist the Member States in their efforts to take forward ongoing reforms and help them identify where improvements are needed.

6. Banking Union and Capital Markets Union: latest developments

6.1 Banking Union

After a number of delays, the **Commission's proposal** for reforms of the crisis management and deposit insurance (CMDI) arrived in April 2023. The proposal's central elements are:

- Modifications of the public interest assessment that are intended to **ensure resolution is applied more often**. We consider these modifications in more detail here;
- Some **extensions of deposit guarantee coverage in the margins**, while leaving the general limit of 100.000 Euro in place. However, **general depositor protection is proposed to become a public interest objective** that resolution authorities will have to pursue, likely avoiding losses for uninsured depositors in many cases, as discussed in this briefing.
- A modification of the **insolvency ranking of deposits**. Basically, all deposits are supposed to enjoy a privileged ranking, which does not distinguish anymore between deposits covered by the deposit guarantee schemes directive and those that are not. While this measure leaves the coverage by the deposit guarantee untouched, it aligns the incentives of the deposit guarantee scheme with those of uncovered depositors. By consequence, the Commission hopes that the deposit guarantee scheme will be more likely to fund resolution measures which then eventually (1) improves the likelihood of avoiding losses for all depositors and (2) facilitates the resolution of banks that are

predominantly deposit-funded; Tightening of the criteria for **public support to banks outside resolution**;
- A **new phase of involvement of the resolution authority with a bank** that precedes resolution. It is triggered when the supervisor sees a "*material risk*" of the bank becoming failing or likely to fail. Please see the last section of this briefing for additional detail and some initial thoughts on possible implications;

The **Parliament adopted its first reading reports** on the proposals in April 2024. They can be accessed via the legislative train schedule, which also provides a summary of the amendments that the Parliament pursues. The **Council adopted a general approach** to the proposals in June 2024.

In recent public remarks, the **Commissioner McGuiness** commented on the Parliament's and Council's amendments. First, she welcomed those of the Parliament. Second, she called those by the Council ***"very disappointing"***. According to McGuiness, the Council's position would neither deliver on the Commission's objectives nor on the objectives formulated by the Eurogroup ministers in a statement preceding the Commission's proposal. In particular, she points out that **the Council proposal makes access to funding more difficult** than envisaged by the Commission, in her words adding "*19 new safeguards on top of our proposal*".

Against that background, we recall that an **enlarged scope of resolution naturally has to come with adequate funding** possibilities. Otherwise, there is a risk that the resolution authority cannot pursue a resolution despite it is mandated by law; this is in particular problematic within the concept of the Banking Union, as a funding gap might force the Single Resolution Board (SRB) to pass the handling of a failed bank to national authorities, against the spirit of the legal framework. In this briefing, we analyse the most salient changes in the Council text in the three interdependent areas of the public interest assessment, the resolution objectives and resolution funding.

Meanwhile, the **backstop for the Single Resolution Fund (SRF)** is still not in place. While it has long been agreed at governments' level, it had to be ratified by national parliaments together with other changes to the ESM treaty. The ratification by the Italian one failed in December 2023; see here.

Further reading:

- Bank crisis management and deposit insurance
- A revised public interest test for bank resolution, how much will it matter?
- CMDI reform: What are the implications for depositors?
- Council position on the CMDI reform- An initial analysis regarding key aspects of the proposed bank crisis management framework

6.2 Progress of the Capital Markets Union

The Capital Markets Union (CMU) project, put forward by the Commission in 2015, is pursued by the EU to put finance for the economy onto stronger and broader foundations. Since, there have been numerous legislative initiatives and follow-up communications from the Commission, yet among finance ministers there are understandable concerns that **EU capital markets have still not caught up with international peers**.

On 28 April 2023, representatives of the European Parliament, the current and incoming (i.e., the Spanish) presidencies of the Council of the EU, and the Commission committed to **finalising pending CMU initiatives as quickly as possible**, in any case before the end of the current legislative cycle. That said, **there are still three "old" CMU initiatives pending**: Union retail investor protection rules 2023/0167(COD), PRIIPs: modernisation of the key information document 2023/0166(COD), Accelerated extrajudicial collateral enforcement (AECE) 2018/0063B(COD).

Three recent **high-profile reports - by Mario Draghi, Enrico Letta and Christian Noyer - however suggest that adopting those pending initiatives will be far from enough** and a new impetus for CMU is needed. We have analysed these reports regarding their recommendations for CMU in this EGOV briefing. As we discuss in more detail in that briefing, the key areas for such a new impetus could be **savings and pensions, market infrastructures, securitisation and supervision.**

The **Commissioner-designate for financial services, Maria Luís Albuquerque**, announced in her written answers to Parliament that she will "present, within the first months of taking office an overall approach on how the EU, Member States and market participants can move forward decisively on the Savings and Investments Union." On **savings and pensions**, she commits to "work with all stakeholders to identify the best way forward". On **market infrastructures**, she confirms that it is already clear to her "that we need to work further on removing barriers that act as an obstacle to market driven integration of the market for post-trading services." On **securitisation**, she refers to the ongoing public consultation by the current Commission and believes she will be able to "conclude on the best course of action […]" and that "[if] evidence shows that immediate action is warranted, we will need to act." Finally, on **supervision**, she commits to "thoroughly consult and engage with all stakeholders on the need to enhance supervisory arrangements within the EU."

On 6 November, Several MEPs questioned the Commissioner-designate on issues related to financial stability within the EU and the competitiveness of the banking system, taking into account **delayed implementation of the Basel III international standards** and **EDIS**. **Other raised concerns** were on the topic of sustainable finance (e.g. proper labelling of green investment products and role investments in the green and digital transitions). During the confirmation hearing, Albuquerque reiterated that financial stability will be the basis of the EU financial system during her mandate and that the foundation for this stability lies in building a strong and competitive European economy. This would entail delivering on the Savings and Investment Union, cross-border supervision, and more opportunities to finance investments, especially for SMEs.

Annex 1: 2024 Council fiscal recommendations (CSR1)

Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia:	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK
putting the general government debt on a plausibly <u>downward</u> trajectory over the medium term	■	■		■		■			■	■	■	■		■		■							■			■	
keeping the general government debt at a <u>prudent</u> level over the medium term			■		■			■					■				■		■	■	■	■		■			■
<u>reducing</u> the general government deficit below the 3% of GDP Treaty reference value		■						■		■	■	■		■		■				■		■		■			■
<u>maintaining/respecting</u> the general government deficit below the 3% of GDP Treaty reference value	■		■	■	■	■			■				■				■		■		■		■			■	

Note: EGOV elaboration based on the CSR1. Fiscal policy CSR for DK, IE, LU and SE was related only to the timely submission of the plan without specific recommendations for debt or deficit trajectories.

Country	**<u>Council Recommendations(s) on non-SGP-related fiscal policy</u> as agreed on 16 July 2024**
AT 	*Improve the fiscal sustainability of the healthcare system and the long-term care system.* *Simplify and rationalise fiscal relationships and responsibilities across layers of government and align financing and spending responsibilities.* *Further improve the tax mix to reduce the tax wedge and support inclusive and sustainable growth.*

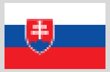
BE	*Address the expected increase in age-related expenditure, including by making the long-term care system more cost-effective.* *Reform the tax and benefits system to strengthen incentives to work by shifting the tax burden away from labour and by reviewing the design of benefits.* *Finance the labour tax reduction, including by reducing tax expenditure. In particular, take steps to phase out fossil fuel subsidies, including by shifting excise duties from electricity to fossil fuels.*
CZ	*Take measures to ensure the long-term fiscal sustainability of the pension system.* *Lower tax and benefit disincentives for parents to return to work to promote higher female labour market participation. Improve incentives for people close to retirement to continue working.* *Take steps to increase revenue from recurrent property taxes.*
DE	*Strengthen public investment and remove obstacles to private investment to boost competitiveness.* *Enhance the fiscal space for productive spending including by reforming the financing side of the first pillar pension system.* *Improve the tax mix for more inclusive growth and sustainable competitiveness, also by reducing disincentives to increase hours worked, in particular for second earners.*
EE	*Broaden the tax base and improve access to and financing of healthcare and long-term care.*
EL	*Continue improving the investment friendliness of the taxation system by reinforcing its legal certainty and continue increasing the operational autonomy of the tax authority to manage and develop its human resources.* *Safeguard the efficiency of public administration while ensuring that it can attract the right skills and preserving consistency with the unified wage grid, and operationalising the multi-level governance framework.* *Ensure that external balances continue on a steadily improving path by promoting balanced growth and supporting productive domestic investment.* *Pursue the ongoing reduction of the stock of non-performing loans held by banks and credit servicers, including by further improving the e-auction processes to reduce the ratio of unsuccessful auctions.*
ES	*Ensure fiscal sustainability including by: (i) reviewing and simplifying the tax system to support economic growth and employment, cohesion and the green transition; and (ii) improving the quality, efficiency and equity of public spending.*

FI	*Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and support the long-term sustainability of public finances.*
FR	*Reduce the complexity of the tax system by better targeting tax expenditures, removing the least efficient ones and limiting their overall budgetary impact.* *Continue the efforts to enhance the quality of budgetary measures, including by setting up quantitative targets for expenditure savings in budgetary planning within the established framework for spending reviews.*
HU	*Wind down the emergency energy support measures before the 2024/2025 heating season.* *Pursue effective coordination and clear demarcation of macroeconomic policies to ensure fiscal and external sustainability.* *Phase out remaining price and interest rate caps to reduce distortive effects and facilitate the smooth transmission of monetary policy.* *Target support measures in the housing sector to low-income households.* *Strengthen the medium-term budgetary framework, align the preparation of annual budgets with the budgetary year and limit discretion in the implementation of annual budgets.*
IE	*Address the expected increase in age-related expenditure by making the healthcare system more cost-effective.*
IT	*Make the tax system more supportive to growth, with a focus on reducing the tax wedge on labour and in line with fiscal sustainability objectives, including by reducing tax expenditures and updating cadastral values, while ensuring fairness and progressivity and supporting the green transition.*
LT	*Provide adequate financing for healthcare, social protection and general public services.*
LU	*Wind down the emergency energy support measures before the 2024/2025 heating season.* *Address the long-term sustainability of the pension system, in particular by limiting early retirement options and by increasing the employment rate for older workers.*

	Accelerate the adoption of a comprehensive land use policy and a property tax reform and prioritise the development of large-scale district projects on government-owned land. *Increase action to effectively tackle aggressive tax planning, in particular by ensuring sufficient taxation of outbound payments of interest and royalties to zero/low-tax jurisdictions.*
LV	*Broaden taxation, including of capital and property, and strengthen the adequacy of healthcare and social protection.*
MT	*Wind down the emergency energy support measures by the 2024/2025 winter.* *To address remaining aggressive tax planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies.*
NL	*Align the taxation of different types of income from wealth, amongst others, to reduce the household debt bias.* *Remove obstacles to the construction of new dwellings, and ensure the affordability and availability of housing in the private rental market.* *Address the expected increase in age-related expenditure by making the long-term care system more cost-effective*
PL	*Improve the efficiency of public spending, including through better targeting of social benefits as well as more transparency in investment planning and wider use of standardised procedures for project assessment and selection.* *Ensure the adequacy of future pension benefits and reinforce the sustainability of the pension system, including by taking measures on effective retirement age and reforming preferential pension schemes.*
PT	*Wind down the emergency energy support measures before the 2024/2025 heating season.* *Improve the effectiveness of the tax system, in particular by strengthening the efficiency of its administration and reducing the associated administrative burden.* *Take action to ensure the medium-term fiscal sustainability of the pension system.*
SE	*Reduce risks related to high household debt and housing market imbalances by reducing the tax deductibility of mortgage interest payments and increasing recurrent property taxes, while developing appropriate tools for better policy assessment and targeting.* *Stimulate investment in residential construction to ease the most urgent shortages, in particular by removing structural obstacles to construction.* *Improve the efficiency of the housing market, including by introducing reforms in the rental market.*

SI	*Ensure the fiscal sustainability of social protection and rebalance tax revenues towards more growth-friendly and sustainable sources.* *Improve the efficiency of public spending by carrying out spending reviews and through better management of public investment.*
SK	*Make the tax mix more efficient, including by reducing disincentives on the labour market, and making a stronger use of environmental and recurrent property taxation.* *Reduce costly spending measures, also by implementing spending reviews.* *Continue to strengthen tax compliance, including by further digitalising tax administration.* *Reduce the risks related to household debt by supporting housing supply and the expansion of the rental market.*

Annex 2: Main conclusions from Macroeconomic Imbalance Procedure

Country	MIP in 2024	Policy developments
Countries no longer experiences imbalances		
FR 	No imbalances	The Commission notes positive tendencies in the labour market as regards employment growth and employment levels, and going forward also on labour productivity and cost competitiveness. Debt deleveraging should continue, both on the side of private households and non-financial corporations. Public debt is forecast to increase further in 2025 from the already high level of just over 110% of GDP in 2023. The Commission singles out the persistent high government deficit, certainly the increase in the level of interest rates for French debt contributes unfavourably to this evolution. The Commission hinted at the EDP as the place where France will need to put forward measures to rein in the public debt dynamics and thereby also help avoid a return of macroeconomic imbalances going forward. The absence of macroeconomic imbalances in France in the current exercise appears to reflect mainly favourable cyclical developments (e.g. receding inflationary pressures, deleveraging of private households and firms) as well as some policy success in labour and product markets and investment under the RRF while public finances have not been supportive in that regard.
PT 	No imbalances	Debt deleveraging continued on all three relevant accounts, private household balance sheets, external funding of the economy, as well as the financing needs of the general government as a budget surplus has reduced funding pressure. For the economy as a whole, the net international investment position (NIIP), while remaining clearly in negative territory, has been brought down against the backdrop of economic growth and a current account surplus. Also, the Commission positively mentions a favourable structure of current stock of external liabilities. Both current account and fiscal surpluses are expected to continue sustain this positive development, even if at a more moderate pace. Continued implementation of the national RRP is expected to help this positive development.
ES 	No imbalances	Private deleveraging continued accompanied by a reduction of the negative saldo of its international investment position continues. This yields an outlook of a continued improvement on both accounts at a more moderate pace going forward. The current account helped this evolution, both due to strong export performance and lower energy import prices. Labour markets and RRP implementation are expected to work favourably towards avoiding imbalances, whereas the budget deficit remains significant.
Emerging imbalances		
SK 	Imbalances	While the previous MIP exercise had expected a positive evolution of the structural vulnerabilities, improvements have been slow and competitiveness and external funding vulnerabilities are now expected to worsen due to a slow adjustment in labour and product markets. Lacking policy action in those areas is negatively compounded by inadequate fiscal stance (addressed under the EDP going forward). Also, housing policies encouraged further leveraging of private household balance sheets, where at this point in time the opposite should take place from a macro-imbalances vantage point. In sum,

		Slovakia has not been able to take advantage of the favourable cyclical effect of the overall macroenvironment, mainly due to inadequate (pro-cyclical) fiscal policies.
Continued imbalances		
CY	Imbalances	Insufficient deleveraging on private household and public balance sheets, continued high and increasing external funding needs translate into the persistence of imbalances. Some positive development is identified in the financial corporations sector, but with some caution as high debt levels of households and companies put the recent improvements of non-performing loans into perspective; vulnerability to external shocks remains high as a result. Fiscal policy makes a continued positive contribution to reining in imbalances and bring down government indebtedness. It is however expected to remain insufficient to dent external funding stress; the Commission urges a continued focus of RRP on reducing dependence on oil imports.
DE	Imbalances	The long-standing pair of insufficient domestic demand and high current account surpluses remains in place in Germany with negative spillover to other euro area and EU economies. Even if it remains below the very high pre-pandemic levels, the current account surplus has again reached a very high level at 5.9% of GDP in 2023 and is expected to increase further in 2024 despite sluggish global trade dynamics. The Commission notes some relief in private housing markets but continued stress in commercial property which remains a source of risk for financial corporations' balance sheets. The savings-investment gap remains significant with insufficient investment volumes continuing to accumulate future spending needs in the most favourable scenario, more realistically they more and more curtail growth and innovation potential going forward.
HU	Imbalances	The Commission has kept Hungary in the group of countries with persisting imbalances despite both cyclical and domestic demand driven improvement of the economy's external funding needs. The negative development appears to be concentrated in the fiscal domain and shall be addressed under the EDP.
NL	Imbalances	The Commission mentions that domestic demand has been picking up and has helped to reduced negative spillover of the continued large savings-investment gap to the rest of the euro area and EU as a whole. The Commission points to several structural particularities that raise the question to which extent the situation is not a statistical artefact and international corporate accounting conventions rather than a reflection of economic realities. The particular use of transferring housing wealth across generations and managing longevity risk on private household balance sheets makes the Dutch statistical indicators difficult to compare with those of other EU economies. It is questionable if the MIP is the place to discuss the relative merits of different approaches to regulating the housing market before a clear risk for other euro area economies can be identified.
SE	Imbalances	Despite recent corrections, Sweden remains exposed to vulnerabilities from its real estate market and high levels of private debt. Private sector deficit is mostly declining due to the impact of positive inflation developments on nominal GDP growth while debt levels continue to rise in nominal terms. The repayment capacity of households continues to suffer off the back of mortgages with variable interest rates and very ling durations. New housing constructions have been declining yet the market continues to show significant overvaluations of housing. All in all, the financial sector continues to be highly exposed to

		vulnerabilities in real estate. The Commission criticises policy action as limited, noting that more could be done to increase housing supply and reform real estate related taxation policies.
From excessive imbalances to imbalances		
EL	Imbalances	The Commission improved the outlook for Greece notably in light of positive developments related to its high public indebtedness and the ongoing decline in the high level of non-performing loans, though vulnerabilities remain relevant. Therefore, short-term risks to the sustainability of public finances remain low, with expected improvements in fiscal balances, though NPLs continue to weigh on economic growth. Despite improvements in employment levels, unemployment remain high. The external position remains weak but structural reforms and continued policy action is contributing to address identified vulnerabilities. The Commission encourages to continue to maintain a prudent fiscal stance and implement the RRP.
IT	Imbalances	Italy's outlook under the MIP has also somewhat improved as the Commission classify it as no longer experiencing excessive imbalances. However, public debt levels, while declining from the COVID-19 pandemic peak due to strong nominal GDP growth, remain high. The trend is also set to revert in 2024 and 2025. Overall, the SGP and the EDP recommendations are seen as positive vehicles to address outstanding fiscal sustainability risks. Productivity growth while positive remains low showing the need for further action on structural reforms and investments. The labour market shows signs of improvements yet participation rates remain comparatively low. The financial sector has also shown improvements notably in relation to asset quality and profitability but it remains exposed to sovereign risks, with potential cross-border consequences. Nevertheless, the Commission assesses recent policy action as positive, notably in the context of the RRF contributing to potential GDP growth and public debt reduction.
Worsening to excessive imbalances		
RO	Excessive imbalances	The Commission downgrades the outlook for Romania who is now experiencing severe imbalances due to weaknesses in the external account. The main reason identified is growing large public deficit levels matched by rising inflationary pressures and subdued policy actions. The Commission notes some improvement in the current account deficit, driven by weaker private consumption and improvements in terms of trade, but the deficit remains large and is not forecasted to improve as the fiscal situation continues to deteriorate. Overall, growing external indebtedness may expose Romania to volatility in investor sentiment and external shock. The Commission recommends compliance with fiscal adjustments under the EDP and further reform action off the back of RRP implementation.

Annex 3: State of play on implementation of RRF payment requests, by 31 August 2024

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
27 plans approved by the Commission and adopted by the Council																											
21 pre-financing disbursed before 31 December 2021 and excluding REPowerEU pre-financing (EUR 56.6 billion)		▲					*										▲		▲		▲						▲
21 REPowerEU pre-financing disbursed (EUR 10.4 billion)		●			●		●									●			■								■
26 Operational Arrangements signed																											
63 payment requests submitted to the Commission, including loans where relevant	2x	2x	2x	2x	1x	2x	1x	4x	4x	3x	5x	6x	3x	2x	2x	1x		2x	1x	1x	1x	5x	3x	3x	4x	1x	
51 payments disbursed upon satisfactory fulfilment of M&Ts (EUR 198.4 billion)		1x	2x	2x	1x	2x	1x	3x	4x	3x	5x	5x	1x	2x	2x	1x		2x		1x	1x	4x	2x	2x	3x	1x	

Note: * Ireland did not request any pre-financing. ▲ No pre-financing available as the Council Implementing Decision had not been adopted by 31 December 2021, which was a prerequisite for pre-financing. ● No REPowerEU pre-financing available as the REPowerEU chapter had not been adopted by 31 December 2023, which was a prerequisite for REPowerEU pre-financing. ■ The Netherlands and Sweden did not request any REPowerEU pre-financing.

Source: Commission, Third Annual Report on the implementation of the RRF

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This document is available on the internet at: www.europarl.europa.eu/supporting-analyses