Q&A

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The Swedish Presidency's priorities for a more competitive and financially resilient EU

What are the priorities of the Swedish Presidency in the economic area?

The Swedish Presidency takes place during a time of historic challenges for Europe, both for our security and our economy. Households and businesses across the EU are struggling to make ends meet, pressured by soaring inflation and declining economic growth. However, as shown by the EU's response to the invasion of Ukraine, we are strong when we act together. Our unity is paramount, especially in these times of economic uncertainty and hardship. In the Ecofin Council, we monitor and regularly discuss the challenges associated with the economic situation and follow how the European economy develops.

In terms of priorities, I would firstly like to underline that a top priority for our Presidency is to make sure that the EU remains committed in its support to Ukraine. Among the finance ministers, we are closely monitoring Ukraine's funding needs and our Presidency stands ready to act if further financial support is needed. It is also important to look beyond the immediate needs of Ukraine, recognizing the urgency for close cooperation between the EU, its bilateral partners, and international financial institutions concerning Ukraine's reconstruction.

Second, I would like to highlight the Economic Governance Review. We need to have a solid fiscal framework that can contribute to sustainable public finances and economic growth in all Member States in years to come. The Presidency has focused on building consensus among Member States, and I am very happy that we have reached a first important step with the Council Conclusions at the Ecofin meeting in March.

Third, the Swedish Presidency has put the EU's long-term competitiveness and productivity at the forefront. We need a broad strategy to tackle future challenges, and the continued deepening of the Capital Markets Union is an important pillar of this work.

Fourth, having our Presidency at the end of this institutional cycle means working with many legislative files in parallel. To mention just a few things, we are prioritising work on the fight against money laundering and terrorism financing and the prevention of tax evasion, tax avoidance, aggressive tax planning and harmful tax competition.

Are policy makers in Europe on the right track to cope with persistent inflation and the reduction of growth?

Inflation increased at an alarming rate during 2022, fuelled by the war in Ukraine. Since its peak in September, inflation has fallen as a result of lower energy prices. Nevertheless, core inflation has continued to increase and has put immense pressure on households and businesses. High inflation has led many central banks to tighten monetary policy, which has a dampening effect on economic activity in EU Member States. GDP growth decreased in the last quarter of 2022, driven by falling investments and private consumption.

In its winter forecast, the European Commission predicted that inflation in the EU would gradually subside in 2023 and stabilize close to the inflation target at the end of 2024. GDP is expected to gain more traction as headwinds abate.

Many EU Member States reacted to the energy crisis with fiscal measures aimed at decreasing the social and economic impact on households and businesses. The potential impact of these measures on growth is hard to estimate, especially at EU level. It is likely that the measures have had both positive and negative impacts on inflation.

The initial support measures were to a large extent broad based, which might have been warranted given the suddenness and strength of the initial energy price shock. However, broad based fiscal stimulus may be less warranted going forward. For the year ahead, the support measures should preferably be phased out, starting with the least targeted ones. This could limit fiscal costs and reduce energy consumption as well as increase energy efficiency.

There is a need to strengthen fiscal sustainability through fiscal consolidation while undertaking reforms and investments that increase long term growth. In the field of energy, the EU needs to end its dependence on Russian fossil fuel by focusing on measures that increase energy efficiency, diversify energy supply, and accelerate the development of fossil free energy sources – in line with the RRF and REPowerEU.

How important is it to achieve a swift agreement on the reform of the EU economic governance framework in the coming months?

The reform of the EU economic governance framework is a priority for the Swedish Presidency, and the recent adoption of Council Conclusions on the economic governance framework is an important achievement. The efforts and the constructive spirit of the Member States and the Commission have resulted in an agreement covering general principles for the reform which will guide the Commission in its preparation of legislative proposals to make the reform a practical reality.

We have made important progress on the reform. However, it is clear that there are still outstanding issues concerning how the new framework will work in practice. These issues will have to be taken forward at the technical level. With such an important reform, it is central that we develop and agree on a framework that works for all Member States, while still recognising the need and commitment to proceed swiftly.

For our part, we will continue to take the reform forward in the Council for the remainder of our Presidency so that our Spanish colleagues can hopefully reach the finish line during their own forthcoming Presidency.

What should be the main elements of a reform of the Stability and Growth Pact? What measures would finally make it effective?

In our recently adopted Council Conclusions on a reform of the economic governance framework, we highlight the main elements where Member States' views have converged. Considering the Commission's orientations from November last year, we have had intense discussions in the Council and have aligned ourselves on the broad principles.

We affirm the importance of the existing reference values of 3 percent for the government deficit and 60 percent of GDP for public debt. These values should remain unchanged. When it comes to ensuring that these values are adhered to more effectively, we will move towards a system with a medium-term perspective where the Member States will make plans for fiscal consolidation, reforms, and investments for the coming years. The proposal for a new framework also includes upgraded enforcement, which will be key to ensuring its' effectiveness.

The Council Conclusions provide a solid basis for the future work that is needed on the Economic Governance Review. They pave the way for a concrete reform that ensures sustainable public finances and economic growth in all Member States for years to come.