



ROSE BRIEFING 47 18 March 2022

ECONOMIC DEVELOPMENTS IN THE EU 14 March EU Council Budget perspectives for 2023

EU deflation to continue: EU will press EU states with high debt to reduce government expenditure but also to increase defence spending.

'In light of the Commission assessment, we reaffirm the fiscal policy strategy for this year, as set out in our December 2021 statement on the 2022 Draft Budgetary Plans. We support the Commission's view that, on the basis of its Winter Forecast 2022, transitioning from an aggregate supportive fiscal stance in the euro area to **a broadly neutral aggregate fiscal stance** next year appears to be appropriate while standing ready to react to the evolving economic situation, also in view of the high level of uncertainty. We also take note of the Commission's readiness to adjust its guidance as needed and at the latest as part of the Commission's European Semester spring package in late May 2022. **At the same time, in light of the current assessment of the economic situation, a differentiation of fiscal strategies across member states is needed.** This would also contribute to achieving a balanced aggregate fiscal stance in the euro area. More specifically, with a view to preserving debt sustainability, in member states with high public debt, we concur that starting a gradual fiscal adjustment to reduce their public debt is appropriate, if conditions allow. This adjustment should be embedded in a credible medium-term strategy that continues to promote investment and reforms needed for the twin transition, and improving the composition of public finances.

Eurostat figures show EU inflation running at 6.2 percent in February 2022 as against 1.7 percent in March 2021. Business Investment in 2021 Q3 was at 24 percent gross added value as against 27.4 percent in 2019 Q4. The German stock market DAX remains 13 percent below its January value – despite a recovery on 8 March by 7 percent.

GEO-POLITICAL DEVELOPMENTS IN THE EU

6 March EU Council: entry of three former Soviet republic to the EU

EU Council (under French Presidency) takes decision start to process for the admittance of Georgia, Moldova and Ukraine to the EU.

Draft EU military strategy document for presentation to the March EU Council

Draft as of 14 March: priority given to NATO integration and not to an autonomous EU military force

"The return of war in Europe, as well as major geopolitical shifts, are challenging our ability to promote our vision and defend our interests...The more hostile security environment requires us to make a quantum leap forward and increase our capacity and willingness to act, strengthen our resilience and ensure solidarity and mutual assistance. In this context, our strategic partnership with NATO and the collective defence it provides to Allies is more important than ever for our Euro-Atlantic security"

On **defence spending**, the new draft states "it becomes urgent to spend more and better" in coordination between member states and EU level. The bloc will "define objectives on increased and improved defence spending" by mid-2022, with the European Commission tasked with developing additional incentives for collaborative investments. One such step has recently taken

place with the EU's executive proposing a waiver of Value Added Tax (VAT) when buying defence equipment produced in Europe to promote joint armaments projects. Additionally the **European Peace Facility (EPF)** will now be enabled so that it can be used to supply lethal weapons to a third country, ie outside the EU, up to a ceiling of €5 billion. 'Through the European Peace Facility, the EU can rapidly provide important assistance to partners, for example, providing military equipment often supplementing training by CSDP missions... This can also be done to increase partners' defence capabilities in a moment of crisis, as in the case of the assistance package to support the Ukrainian armed forces.'

POLITICO-ECONOMIC DEVELOPMENTS IN BRITAIN

Defence

British Parliamentary Paper 9540: NATO – Reinforcing the Eastern Flank (16 February 2022)

Published a week before the Russian invasion of Ukraine the paper documents the UK's role in strengthening of NATO military deployments in the Baltic states, Poland, Slovakia, Balkans and increased military aid to Ukraine and Georgia over the previous six months.

Financial Regulation: pension funds

On 11 February Rees-Mogg, on behalf of UK government, announced the intention to abandon EU Regulation Solvency II controlling the proportion of investment funds held by insurance companies and similar pension providers that can be lent long-term – releasing £92 billion for potential investment in infrastructure projects. Subsequently financial journalists (FT 22 February) stress risk to pension holders – despite benefit to government's plans for infrastructure development and shareholders in the companies.

Subsidy Control Bill

This is currently at Report Stage in the House of Lords and will then go back to the House of Commons for final debate.

Scotland: Ferry Contracts

12 March: the £105m contract for two new Caledonian MacBrayne ferries awarded to a Turkish company Ceuve Marin Endustri in the Scottish government's bidding process.