POLITICS

Sweden has taken over the Presidency of the Council of the European Union for the first six months of the year, on January 1, 2023, following the Czech Republic, which headed the Council in the second half of 2022. The priorities of the Swedish Presidency are: security, competitiveness, green and energy transitions, democratic values and the rule of law.

On 1 January 2023 Croatia adopted the euro as its currency and will fully join the Schengen area. This marks an important milestone in the history of Croatia, of the euro and Schengen areas and of the EU as a whole. It follows a period of intensive preparation and substantial efforts by Croatia to meet all the necessary requirements. With Croatia, 20 EU Member States and 347 million EU citizens will share the EU's common currency. As for Schengen, this is the eighth enlargement and the first after 11 years.

In its second year of operation, the Modernisation Fund has disbursed a total of €4.11 billion in support of 61 projects in eight beneficiary countries. These projects will help modernise energy systems, reduce greenhouse gas emissions in energy, industry, transport and agriculture, and improve energy efficiency.

The Commission welcomes the Council's adoption of a ninth package of hard-hitting sanctions against Russia for its aggression against Ukraine. The package comes on top of the full EU import ban on Russian seaborne crude oil, and of the global oil price cap agreed with G7 partners, both of which apply from 5 December.

ECONOMY

In the third quarter of 2022, seasonally adjusted GDP increased by 0.4% in the EU, compared with the previous quarter. In the second quarter of 2022, GDP had grown by 0.7% in the EU. Compared with the same quarter of the previous year, seasonally adjusted GDP increased by 2.5% in the EU in the third quarter of 2022. Ireland (+2.3%) recorded the highest increase of GDP compared to the previous quarter, followed by Cyprus, Malta and Romania (all three +1.3%). The highest decreases were observed in Estonia (-1.8%) and Latvia (-1.7%).

EU annual inflation was 11.1% in November 2022, down from 11.5% in October. A year earlier, the rate was 5.2%. The lowest annual rates were registered in Spain (6.7%) and France (7.1%). The highest annual rates were recorded in Hungary (23.1%) and Latvia (21.7%). Compared with October, annual inflation fell in 16 Member States, remained stable in 3 and rose in 8. In November, the highest contribution to the annual euro area inflation rate came from energy (+3.82 pp), followed by food, alcohol & tobacco (+2.84 pp).

In the third quarter of 2022, the hourly labour costs rose by 3.4 % in the EU, compared with the same quarter of the previous year. In the EU, the economic activities that recorded the highest annual increases in hourly wage costs were 'Mining and quarrying' (+14.2%), followed by 'Accommodation and food service activities' (+5.2%).

SECTORS

The EU consumption of natural gas has dropped by 20.1% in the period August-November 2022, compared with the average gas consumption for the same months (August-November) between 2017 and 2021. During August-November 2022, natural gas consumption dropped in most Member States. Consumption fell the most in Finland (-52.7%), and Latvia (-43.2%). Six Member States, while reducing their natural gas consumption, have not yet reached the 15% target. By contrast, natural gas consumption increased in Malta (+7.1%) and Slovakia (+2.6%).

The Russian invasion of Ukraine has significantly disturbed global agricultural markets in 2022. Russia and Ukraine had been major exporters of grains, wheat, maize, oilseeds (particularly sunflowers) and fertilisers until the war started. Between the third quarter of 2021 (Q3 2021) and the third quarter of 2022 (Q3 2022), the average EU price of agricultural products as a whole (output) rose sharply (+30%) for the same 'basket' of products. This represented a further acceleration in price rises (+25% between Q2 2021 and Q2 2022). There were particularly strong price increases noted for cereals (+52%), eggs (+49%) and milk (+42%).

Mercedes will build a plant for the production of electric vans in Poland. It should be the first Mercedes plant in the world in whose halls the carmaker plans to produce only electric cars, specifically vans.

In 2021, the EU's sparkling wine exports to countries outside the EU amounted to 636 million litres, a significant increase of 29% compared with 494 million litres exported in 2020. Exports registered in 2021 were also above the levels seen in 2019, with data indicating a 21% increase from 528 million litres in 2019 (+ 108 million litres). Between 2017 and 2021 exports had been increasing at an average annual rate of 7%.

FOCUS ON ENERGY

European energy ministers have agreed on a price ceiling for natural gas. The mechanism will apply from 15 February 2023. For the cap to apply, the price of gas on the Dutch TTF exchange must exceed 180 euros/MWh for at least three days, and at the same time the average price of LNG on the world market during the same three days must be 35 euros higher than on TTF.

European leaders have agreed to tighten the system of emission allowances, which will now also apply to buildings and transport. The rate of withdrawal of allowances from the market should be approximately double compared to today and their quantity will also be reduced once in 2024 and again in 2026. The allocation of free allowances will end by 2034, and a carbon duty mechanism will gradually be phased in from 2026. A separate system will then be created from 2027 for the building and transport sectors.

German Chancellor Olaf Scholz inaugurated the liquefied natural gas (LNG) terminal in Wilhelmshaven, Lower Saxony. The new facility has an annual capacity of 5 billion m3 of gas, which corresponds to about 6% of Germany's needs. Germany is preparing to gradually launch five floating LNG terminals.

The Polish electricity producer PGE intends to build the largest battery storage facility in Europe with power of 200 MW and a capacity of 820 MWh.

The Netherlands plans to build two new nuclear power plants by 2035. After that, they should supply up to 13% of the country's electricity production. They are to be built near the only nuclear facility currently in operation in the Netherlands.

EU CALENDAR

Meetings of EU institutions

- *Eurogroup on 16 January*
- *Economic and Financial Affairs Council on 17 January*
- *Foreign Affairs Council on 23 January*
- *General Affairs Council on 24 January*
- *Plenary Session of the European Parliament on 23 January*

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