European Commission

Deepening Europe's Economic and Monetary Union

Update ahead of the Euro Summit of 14 December 2018

I want to continue with the reform of our Economic and Monetary Union to preserve the stability of our single currency and to enhance the convergence of economic, fiscal and labour market policies between the Member States that share the euro.

The stability of our single currency and the solidity of public finances are as important to me as social fairness in implementing necessary structural reforms.

Jean-Claude Juncker, 1 May 2014, then-Candidate for European Commission President

The economic and financial crisis that hit Europe did not start in the euro area, but laid bare some of its institutional weaknesses. Thanks to determined efforts, Europe is now experiencing a robust economic recovery with growth in all Member States. This provides a **window of opportunity** to take the next steps towards deepening Europe's Economic and Monetary Union. It is essential for its members as well as for the EU as a whole.

This is why the Juncker Commission made the **completion of a deep and fair Economic and Monetary Union one of the ten priorities** for its mandate. This is a means to an end: **more jobs, growth, investment, social fairness and macroeconomic stability** for its members as well as for the EU as a whole. Significant progress has been made, but more remains to be done.

Building on the vision set out in the Five Presidents' Report of June 2015, the Reflection Paper on the Deepening of the Economic and Monetary Union of May 2017 and President Juncker's State of the European Union (SOTEU) addresses, the Commission presented a comprehensive roadmap in December 2017 to further enhance the unity, efficiency and democratic accountability of Europe's Economic and Monetary Union by 2025.

This note provides an overview of what has already been achieved, which proposals are still on the table and which issues require further important decisions for the future of Europe.

1. A PROVEN TRACK RECORD

Significant steps have already been taken to strengthen the integrity of the euro area. After the crisis, economic policy coordination and budgetary surveillance were strengthened. Stability support tools were set up to help Member States in difficulty. The regulatory and supervisory framework for the financial sector was overhauled and protection of bank deposits was increased to €100 000 per customer and bank. A complete new architecture was put in place for the supervision and resolution of large or systemic credit institutions in the euro area.

PROGRESS ALREADY MADE TO STRENGTHEN THE ECONOMIC AND MONETARY UNION

Economic Union:

- ☑ Macroeconomic Imbalances Procedure: *early identification of threats to economic stability*
- ☑ **Revamped European Semester:** ***streamlined and strengthened, more emphasis on social issues***
- ☑ **Euro area recommendations:** ***more focus on euro area priorities***
- ☑ **Structural Reform Support Service:** ***technical support for reforms in the Member States***
- ☑ **European Pillar of Social Rights:** ***key principles to support fair and well-functioning labour markets and welfare systems***
- ☑ **Social impact assessment:** ***carried out for the latest stability support programme for Greece***
- ☑ **National Productivity Boards:** ***monitoring productivity and competitiveness developments***

Banking Union and Capital Markets Union:

- ☑ Single Rulebook: *harmonised rules for a more resilient, more transparent and more efficient European financial sector*
- ☑ Harmonised rules for deposit insurance: *deposits protected up to €100 000 per customer and per bank*
- ☑ Single Supervisory Mechanism/Single Resolution Mechanism: *centralised supervision and resolution of banks in the euro area*
- ☑ **Capital Markets Union:** ***new rules that will strengthen the EMU and the international role of the Euro by promoting capital mobility and private risk sharing. Capital Markets Union will also strengthen access to finance by boosting market-based funding, in particular for innovation and start-ups.***

EMU Toolbox

Fiscal Union:

- ☑ Financial support for Member States in difficulty *various rescue funds leading to the European Stability Mechanism*
- ☑ 2-Pack/6-Pack legislation: *stronger budgetary surveillance and focus on debt*
- ☑ **European Fiscal Board:** ***independent advice on the implementation of EU fiscal rules and euro area fiscal stance***
- ☑ **Simplifying fiscal rules:** ***greater focus on the public expenditure benchmark***
- ☑ **Flexibility within the Stability and Growth Pact:** ***to support investment and reforms and to better reflect economic cycles***

Democratic accountability and strong institutions:

- ☑ **Increased ownership:** ***intensified dialogue with the European Parliament, national Parliaments, national Governments and stakeholders***
- ☑ **New start for EU social dialogue:** ***more opportunities for social partners at all levels to discuss priorities***
- ☑ **Stronger focus on the international role of the euro and proposal to strengthen the external representation of the euro**

adopted after the crisis
done during the Juncker Commission

Since the beginning of the **Juncker Commission**, further important measures have been agreed. As a result, the Economic and Monetary Union is as robust as ever, and this has supported the **economic recovery** in the entire EU. This is also evident in **Greece** which concluded its stability support programme in August having seen the return of jobs, growth and fiscal sustainability.

Key facts

GROWTH: Economic growth within the euro area (2.4%) reached a 10-year high in 2017, surpassing the United States (2.3%) and Japan (1.7%) for the last two years. It is set to remain strong.

EMPLOYMENT: Employment is at a record high, with 239 million people working across our Union. Unemployment is at its lowest level since 2008. 12 million jobs have been created in the EU since the start of the Juncker Commission.

INVESTMENT: Investment has picked up again. With the Juncker Plan, we have already triggered more than €360 billion in investment, supporting 750,000 jobs and around 850,000 small businesses in the process.

PUBLIC FINANCES: The public deficit in the euro area has decreased from over 6% in 2009 to as low as 0.6% in 2018. The ratio of government debt to gross domestic product is forecast to fall to 86.9% this year in the euro area, down from 94.2% in 2014.

BANKING SECTOR: European banks are much better capitalised, have much higher liquidity buffers than before the financial crisis, and are therefore better prepared to withstand economic shocks. In the second quarter of 2018, the average total capital ratio of EU banks stood at almost 20%. The liquidity coverage ratio (LCR) remained well above the regulatory requirements, with an EU average of 141%.

NON-PERFORMING LOANS: The levels of non-performing loans in the EU have come down by almost half since 2014: the latest figures for the second quarter of 2018 show that the NPL ratio declined to 3.4%, reaching the lowest level since the last quarter of 2014.

2. WHERE WE ARE NOW

As President Juncker said in his 2018 State of the European Union address, recent events have brought into sharp focus the need to deepen our Economic and Monetary Union. The Commission has made a series of proposals to strengthen the Union further– most of which now await adoption by the European Parliament and the Council.

Economic and Fiscal Union

The **European Semester** has been strengthened and streamlined during the Juncker Commission, including through a greater focus on euro area priorities. However, the implementation of key reforms in Member States can still be slow and remains a priority. The Commission created the **Structural Reform Support Service** to provide Member States with tailor-made support to implement key reforms and in September, the European Parliament and the Council agreed to the Commission's proposal to increase the technical support budget of the Structural Reform Support Programme by €80 million. For the next Multiannual Financial Framework, the Commission has envisaged a new **Reform Support Programme to boost reforms** with a **total budget of €25 billion**, including both financial and technical support and a targeted **Convergence Facility** for countries wishing to join the euro area. While the **Pillar of Social Rights** has been proclaimed, the priority is now on implementation.

The **flexibility embedded in the Stability and Growth Pact** was used to strike the right balance between stabilising the economy and prudent fiscal policy. Estimates suggest that the overall fiscal breathing space that was given has boosted the EU GDP by 0.8% over the last four years and resulted in around 1.5 million jobs. This did not prevent government debt from decreasing significantly over 2015-2018, by seven percentage points. While country-specific priorities differ, this is an illustration of how the 'virtuous triangle' of boosting investment, pursuing reforms and responsible public finances has worked in practice.

The good functioning of the single currency calls for sound public finances, fiscal buffers and the capacity to recover quickly in case of large economic shocks. In December 2017, the Commission put forward a concrete proposal **to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework**, which aims to strengthen the Member States' responsible conduct of fiscal policy and promote compliance with their EU budgetary obligations, while taking into account the appropriate flexibility built into the Stability and Growth Pact. The Commission also proposed for the next Multiannual Financial Framework a **European Investment Stabilisation Function** to mobilise **up to €30 billion in loans** to help stabilise public investment levels and facilitate rapid economic recovery in cases of large asymmetric shocks.

COMPLETING THE ECONOMIC AND FISCAL UNION

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
Common Provisions Regulation amendment (2018-2020)	Extend the possibilities to allow Member States to use part of their European Structural and Investment Funds performance reserve to support agreed reforms	●	●
Fiscal Compact into EU law	Integrate the substance of the Treaty on Stability, Coordination and Governance into EU law	●	●
Reform Support Programme (2021-2027)	Financial and technical support for priority reforms in all EU Member States, with a targeted facility for countries wishing to join the euro area	●	●
European Investment Stabilisation Function (2021-2027)	Help stabilise public investment levels and facilitate rapid economic recovery in cases of large asymmetric economic shocks	●	●

● Swift agreement possible by following normal procedures

Financial Union

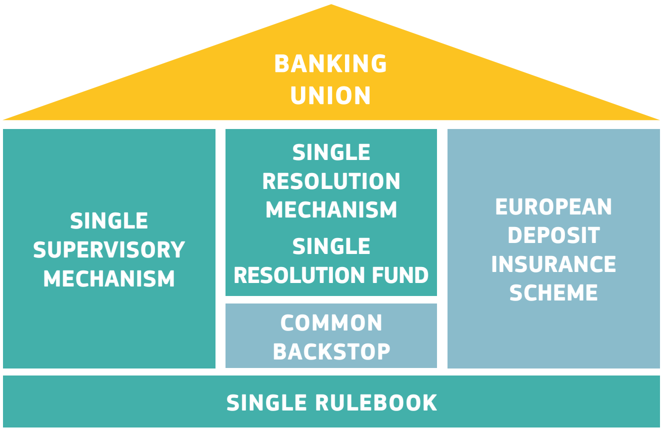
Financial stability has been considerably reinforced in the euro area and in the EU as a whole. The "de-risking" of the banking sector is making sustained progress, as the latest data on the reduction of non-performing loans demonstrate. At the same time, the work on financial stability and integration needs to continue, including through swift progress on Capital Markets Union. Moreover, the Commission proposed to further strengthen the supervision of EU financial institutions in order to better address money-laundering and terrorist financing threats. A quick agreement by the co-legislators is key to protecting the EU from financial crime.

Banking Union

In addition to the reforms already completed, a final agreement on **a backstop to the Single Resolution Fund for the Banking Union** is now necessary. This backstop should be credible and readily available to use. It would be fiscally neutral and activated as last-resort insurance in the event of a bank resolution and reinforce confidence in the banking system. Heads of State or Government have already agreed that the backstop will be provided by the European Stability Mechanism. The recent agreement by euro area Finance Ministers on the terms of reference for the backstop increases the credibility of the Fund. This paves the way for a final agreement by the Leaders at the December Euro Summit.

In the area of risk reduction, co-legislators reached an agreement on the banking package, a comprehensive set of reforms the Commission proposed in 2016 to further strengthen the resilience and the resolvability of EU banks. Moreover, an agreement is possible on the proposed prudential measures to prevent the future accumulation of non-performing loans. Swift progress is also necessary on all other measures presented under the EU Action Plan to tackle non-performing loans. Progress is also needed on the Commission's proposal of May 2018 on the creation of an enabling framework for Sovereign Bond-Backed Securities, which will contribute to private risk-sharing and further weaken the link between banks and their home countries.

Finally, more intensive political engagement is needed on **the European Deposit Insurance Scheme**. Putting in place – over time – a common deposit protection scheme is essential for increased trust and resilience of the banking system and the common currency.



COMPLETING THE BANKING UNION

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
European Deposit Insurance Scheme (EDIS)	Further strengthening the protection of bank depositors across the Banking Union.		
November 2016 Banking Package	Reinforcing the banking Single Rulebook with further risk-reducing measures and rules to foster banks' infrastructure investment.		
A backstop for the Banking Union	Making the agreed backstop for the Single Resolution Fund part of the European Stability Mechanism.		
Further **reduction of non-performing loans** on EU banks' balance sheets	Package of initiatives to further reduce non-performing loans, complementing previous actions.		

- Agreement reached
- Swift agreement possible by following normal procedures
- Agreement possible if strong political commitment from all EU institutions

Capital Markets Union

Deep and well-integrated capital markets are complementary to the Banking Union, contributing to **private risk-sharing, increasing economic convergence and helping to cushion future shocks**. The Commission has proposed a **wide-ranging set of measures** to achieve this goal, including the reform of the EU's supervisory architecture, new rules for pan-European personal pension products, an EU framework for covered bonds, a proposal to improve the access to public markets for small and medium-sized enterprises and an initiative to facilitate cross-border distribution of investment funds. Strategies to encourage **green and sustainable investments** and to promote **financial innovations** are also on the table. Progress on all these proposals is now urgent.

DELIVERING ON THE CAPITAL MARKETS UNION

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
CAPITAL MARKETS UNION KEY BUILDING BLOCKS			
Pan-European personal pension product (PEPP)	To give citizens more options at a lower cost for their retirement savings.	🟡	🟡
Covered bonds	To channel finance efficiently to the real estate market and for publicly guaranteed instruments including some loans to small and medium-sized enterprises.	🟡	🟡
Crowdfunding	To improve access to this innovative form of finance for businesses in need of funding. This should benefit start-ups particularly, while ensuring that investors benefit from strong protection and safeguards.	🟡	🟠
Cross-border distribution of collective investment funds	To improve the transparency of national requirements, remove burdensome requirements and harmonise diverging national rules.	🟡	🟡
Investment firms review	To ensure a level playing field between the large and systemic financial institutions while introducing simpler prudential rules for non-systemic investment firms.	🟡	🟠
Preventive restructuring, second chance and efficiency of procedures	To provide honest entrepreneurs with a second chance through debt discharge, in order to give them a fresh start and incentivise entrepreneurship. To facilitate the efficient restructuring of viable companies in financial difficulties in order to avoid insolvency.	🟡	🟡
Promotion of SME Growth Markets	To cut red-tape for small and medium-sized enterprises trying to access 'SME Growth Markets', a new category of trading venue dedicated to small issuers.	🟡	🟠
Third-party effects on assignment of claims	To significantly enhance legal certainty by determining which national law is applicable to the effects on third parties where a claim is assigned cross-border.	🟠	🟠
European Supervisory Authorities review including anti-money laundering rules	To enhance supervisory convergence and strengthen enforcement. This promotes consistent and more effective supervision, and contributes to the fight against money laundering and terrorist financing.	🟠	🟠
European market infrastructure regulation (Supervision)	To ensure that the supervisory framework of the Union is sufficiently robust to anticipate and mitigate risk from Union central counterparties and from systemic third-country central counterparties servicing Union clients.	🟡	🟡
SUSTAINABLE FINANCE INITIATIVES			
Sustainable finance: Taxonomy	To help to reorient private capital flows towards more sustainable investments, such as clean transport, and help finance the transition to a low-carbon, more resource-efficient and circular economy.	🟠	🟠
Sustainable finance: Disclosure		🟡	🟠
Sustainable finance: Low carbon Benchmarks		🟡	🟠

🟡 Swift agreement possible by following normal procedures
🟠 Agreement possible if strong political commitment from all EU institutions

Democratic accountability and strong institutions

A stronger Economic and Monetary Union requires **stronger legitimacy and governance**. The transparency, democratic accountability, coherence and efficiency of policy making needs to be increased and the common interests of the euro area better represented.

In December 2017, the Commission presented a proposal to establish a **European Monetary Fund**, anchored within the EU's legal framework and built on the well-established structure of the European Stability Mechanism. The proposal for an EMF preserves the governance structure of the Member States and fully respects the role of national Parliaments. Some of these ideas are now being taken up in the proposals to further deepen the European Stability Mechanism.

To make sure the voice of the euro is heard globally, the Commission proposed to improve the **external representation of the euro area** in international financial organisations such as the International Monetary Fund. In just 20 years following its creation, the euro has become the second most important currency in the world. But we must do more to allow our single currency to play its full role on the international scene. That is also why the Commission set out ways to strengthen the **international role of the euro** and adopted a Recommendation to promote its use in the energy sector.

The Commission also published a Communication spelling out the **possible functions of a European Minister of Economy and Finance** who could serve as Vice-President of the Commission and chair the Eurogroup, as is possible under the current EU Treaties.

DELIVERING DEMOCRATIC ACCOUNTABILITY AND STRONG INSTITUTIONS

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
External representation of the euro area	Progressively establish a unified representation of the euro area in the International Monetary Fund	●	●
European Monetary Fund	Establish a European Monetary Fund, anchored within the EU's legal framework and built on the structure of the European Stability Mechanism	●	●
European Minister of Economy and Finance	The Minister could strengthen the coherence, efficiency, transparency and democratic accountability of economic policy-making for the EU and the euro area	-	-
International role of the euro	Set of measures to facilitate and broaden the use of the euro on the global scene	-	-

● Swift agreement possible by following normal procedures

3. THE WAY FORWARD

Building on the work of the recent years, the **Euro Summit of June 2018** issued the following statement:

1. The **agreement in the Council on the Banking package** should allow the co-legislators to adopt it before the end of the year while preserving the overall balance. Adhering to all elements of the 2016 roadmap in the appropriate sequence, work should start on **a roadmap for beginning political negotiations on the European Deposit Insurance Scheme**.
2. **The European Stability Mechanism will provide the common backstop to the Single Resolution Fund** and be strengthened working on the basis of all elements of an European Stability Mechanism reform as set out in the letter of the Eurogroup President. The Eurogroup will prepare the terms of reference of the common backstop and agree on a term sheet for the further development of the European Stability Mechanism by December 2018.
3. The Eurogroup will further discuss all the items mentioned in **the letter by the Eurogroup President**.
4. The Euro Summit will come back to these issues in **December 2018**.

Following discussions, notably in the Eurogroup of 3/4 December 2018, it would be important that the Euro Summit of 14 December 2018 decides on the following issues:

ESM reform

- Agree on the **further development of the European Stability Mechanism**, as set out in the Eurogroup Report, and invite the Eurogroup to continue the work on the subsequent changes to the European Stability Mechanism Treaty by June 2019 at the latest.

- Agree with the operationalisation of the **common backstop to the Single Resolution Fund**, in accordance with the terms of reference annexed to the Eurogroup Report. The Euro Summit could also agree that the backstop will be introduced earlier than foreseen provided that sufficient progress has been made on risk-reduction in the banking sector, to be assessed in 2020.

- Welcome the **agreement reached between the European Stability Mechanism and the Commission** on new modalities of cooperation within and outside financial assistance programmes, in full respect of the EU legal framework.

Financial Union

- Welcome the **sustained progress made on risk-reduction** in the EU banking sector, as set out in the Commission Report of 28 November, and welcome the recent agreement of the European Parliament and the Council on the banking package, which will further reduce risks in the banking system and ensure a resilient resolution framework.

- Call for a swift conclusion of **all Banking Union-related pending legislative files**, including in the area of non-performing loans, insolvency and anti-money laundering, before the end of the current legislature. The Euro Summit could also call for longer term-actions to bring about further improvements in the prudential and anti-money laundering frameworks.

- Note the importance of deep and liquid capital markets for the support of financial stability and of the EU economy and calls for **ambitious progress on the Capital Markets Union**, as well as a call on the European Parliament and the Council to adopt all key pending proposals before the end of the current legislature.

- Reiterate that work should continue on the roadmap for beginning **political negotiations on the European Deposit Insurance Scheme** and note the intention of the Eurogroup to establish a High-level group which will report back by June 2019.

Possible budgetary instruments in the euro area

- Discuss **possible budgetary instruments to promote competitiveness, convergence and stabilisation** within the euro area in the framework of the European Union. Such instruments should be designed as part of the forthcoming EU multiannual financial framework for 2021-2027.

- Invite the Eurogroup and the Council to take the discussion forward on the basis of the proposals by the Commission and other relevant contributions, and to report back in the first half of 2019.

International role of the euro

- Welcome the Commission's Communication on the **international role of the euro** and the Commission's Recommendation on the international role of the euro in the field of energy. The Council could also underline that a robust and resilient Economic and Monetary Union, including the completion of the Banking Union and Capital Markets Union, is essential to ensure a stronger role and greater use of the euro on the global scene. It could take note of the policy avenues set out in the Communication and invite the Eurogroup and the Council to discuss the matter further.

- Agree to come back to all topical issues in June 2019.