IN-DEPTH ANALYSIS

European Parliament

Economic Dialogue with the European Commission on the European Semester Spring 2018 Package

ECON and EMPL on 28 June 2018

Vice-President Dombrovskis, Commissioner Moscovici and Commissioner Thyssen have been invited to an Economic Dialogue on the European Semester Spring 2018 package in line with the relevant EU law. This briefing note covers the 2018 CSRs proposed by the Commission, the implementation of CSRs over the period 2012-2017 and recent decisions related to the implementation of the Stability and Growth Pact and the Macro-economic Imbalance Procedure. It also includes elements related to the on-going work to strengthen the governance and the resilience of the Economic and Monetary Union.

Summary

On 23 May 2018, the Commission (COM) issued its European Semester Spring 2018 Package, which included, inter alia:

1. ***The 2018 Country-Specific Recommendations for 27 EU Member States*** (all Member States except Greece, which is currently under a third financial assistance programme). These recommendations provide yearly guidance for national reforms over the next 12-18 months. Given the positive cyclical conditions, the COM points out that "*all Member States should prioritise reforms that increase their growth potential and make it more inclusive, improve the institutional and business environment, remove bottlenecks to investment, improve resource efficiency, support the creation of quality jobs, reduce inequalities, address skills challenges, ensure effective, resilient and accessible healthcare and improve social safety nets*".
2. An accompanying ***Communication on the 2018 European Semester: Country-specific recommendations***, where, against the backdrop of the improved economic and social climate, the COM called on:
   a) Member States to '*step up efforts in the pursuit of greater macro-economic resilience and growth-enhancing reforms*'; and
   b) The Council to '*endorse the proposed approach for the 2018-country-specific recommendations* (see section 1) *and the related decisions under the Stability and Growth Pact* (see section 2)'.

On 22 June 2018, the **Council (ECOFIN) approved the 2018 CSRs with only minor modifications** (see a separate EGOV note comparing the Commission proposals to the text approved by the Council) and forwarded them to the European Council for its endorsement on 28-29 June 2018. Subsequently, the ECOFIN Council is to adopt the 2018 CSRs on 13 July 2018.

Economic Governance Support Unit (EGOV)
Authors: M.Hradiský, J.Angerer, A.Zoppè, M. Ciucci, J.Vega Bordell and M.A. Minkina
Directorate-General for Internal Policies
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As to implementation record of recommendations, **more than half of CSRs (53%) were implemented, on average, over the period 2012-2017 with at least some progress** based on the regular annual assessment published by the COM in its Country Reports. While the CSRs implementation record followed a downward trend over the period 2012-2016, it has showed first signs of improvement in 2017: the proportion of recommendations on which Member States made *at least some progress* declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before rising to 50% in 2017.

For Member States considered at **risk of macroeconomic imbalances**, most of their respective draft 2018 CSRs are underpinned by the MIP legal base (31 out of 32 draft CSRs targeting the eleven Member States with macroeconomic imbalances). Though, the **implementation record of the CSRs based on MIP** appears to be weaker compared to all CSRs taken together - in 2017, only 37% of the MIP-based recommendations have been implemented with at least 'some progress' (as compared with 50% for all CSRs).

Regarding the latest developments **related to public finances**, the COM spring 2018 forecast data show that the structural budget positions improved in 16 Member States during 2017. However, these positions are expected not to improve in any Member State in 2018. In this regard, the **European Fiscal Board** concluded in its latest report of 18 June 2018 that the favourable economic outlook offers the Member States a prime opportunity to rebuild fiscal buffers.

Following several legislative proposals by the Commission, a road-map agreed by two Member States (Germany and France), and positions expressed by several other Member States, the President of the Eurogroup send a letter on 25 June 2018 to the President of the Euro Summit spelling out the discussions of the Eurogroup and **laying out elements for further deepening of the EMU** (for a comparison of some of these elements see Annex 6 to this note).

This note provides an overview of the 2018 Spring European Semester package, the state-of-play in implementation of Council recommendations under the Stability and Growth Pact and the Macro-economic Imbalance Procedure. The Annexes include an overview of key macroeconomic indicators for the euro area and EU-28, the latest Scoreboard for the identification of macro-economic imbalances, a table depicting Member States' progress towards the EU 2020 targets and a comparison of latest positions of the COM. some Member States, and the Eurogroup on the building blocks to strengthen the governance and the resilience of the EMU.

1. 2018 Country Specific Recommendations

On 23 May 2018, the COM proposed the 2018 Country Specific Recommendations[1] (CSRs) to 27 EU Member States[2], along with the underlying Communication.

The COM proposals build on several elements, including the wider priorities identified in the President Juncker's 2017 State of the Union Address and the 2018 Annual Growth Survey (AGS)[3], the longer-term vision outlined in the Europe 2020 Strategy, the COM's 2018 Country Reports, the COM's assessment of the 2018 Stability/Convergence Programmes and National Reform Programmes, and the European Pillar of Social Rights.

The 2018 CSRs were devised under the so-called streamlined Semester - an approach implemented for the first time during the 2015 Semester cycle that is characterised, in particular, by fewer and refocused

1 The CSRs provide guidance to EU Member States on key fiscal and macro-structural issues over the next 12-18 months.

2 The COM does not propose CSRs to Member States receiving financial assistance to avoid duplication with measures set out in the economic adjustment programme.

3 The three elements of the 'virtuous triangle of economic policy' are the following: (1) boosting investment, (2) pursuing structural reforms and (3) ensuring responsible fiscal policies.

CSRs[4]; an earlier publication of the recommendations on the economic policy of the euro area (i.e. at the very beginning of the cycle, along the publication of the AGS); an earlier assessment of the implementation of CSRs adopted under the previous cycle; inclusion of in-depth reviews under the MIP into the Country Reports (where applicable); and finally an intensified dialogue between the COM and Member States as well as other European institutions.

Table 1: CSRs - some stylized facts

European Semester	Total number of CSRs	Number of Member States	Minimum number of CSRs per Member State		Maximum number of CSRs per Member State	
2012	138	23	4	DE, SE	8	ES
2013	141	23	3	DK	9	ES, SI
2014	157	26	3	DK	8	ES, HR, IT, PT, RO, SI
2015	102	26	1	SE	6	FR, HR, IT
2016	89	27	1	SE	5	FR, HR, IT, CY, PT
2017	78	27	1	DK, SE	5	HR, CY
2018	73	27	1	DK, SE	5	CY

Source: EGOV based on the European Commission.

Table 1 depicts some stylized facts on CSRs:

1. The **number of Member States taking part** in the twelve-monthly cycle of economic and fiscal policy coordination in the framework of the European Semester has gradually increased as Member States receiving financial assistance successfully exited from the related programmes (Ireland, Spain, Portugal and Cyprus)[5];
2. The **total number of CSRs issued** to Member States was more than halved under the streamlined Semester (from a peak of 157 recommendations in 2014 to 73 in 2018);
3. The **minimum and maximum numbers of CSRs** addressed to Member States were gradually reduced to stabilise at one and five, respectively, over the 2016-2018 cycles.

A more detailed analysis of the 2018 CSRs proposed by the COM (draft CSRs) shows that[6]:

1. The decline in the number of policy recommendations observed under the 2018 cycle mainly reflects the fact that policy areas which were covered separately in 2017 have been merged with other policy areas under the current Semester[7];
2. All of the 73 recommendations are linked to policy areas that were already covered during the previous cycle. In other words, the policy challenges on which recommendations focus during this cycle have not changed in substance, as such. However, the COM made a stronger call on Member States to '*step up efforts in the pursuit of greater macro-economic resilience and growth-*

[4] In this regard, the COM indicated that that it will continue to monitor policy areas not covered directly by CSRs in the Country reports and take them up via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union (the COM Communication of 13 May 2015, p. 10).

[5] See a dedicated ESM webpage for more information: https://www.esm.europa.eu/financial-assistance.

[6] See a separate EGOV note "Country Specific Recommendations (CSRs) for 2017 and 2018 - A tabular comparison and an overview of implementation".

[7] The decrease in number of CSRs observed between 2017 and 2018 is predominantly due to changes in presentation rather than substance. Out of the five recommendations that were discontinued, one was fully dropped (BG 2017 CSR 4), while the other four were included in other CSRs during the present Semester cycle (FR 2017 CSR 3 is now part of FR 2018 CSR 2; HR 2017 CSR 3 of HR 2018 CSR 2; PT 2017 CSR 4 of PT 2018 CSR 3; and finally, SI 2017 CSR 2 of SI 2018 CSR 1). See Annex 3 for further information.

enhancing reforms' on the back of the improved economic outlook - a call made in line with President Juncker's appeal during his 2017 State of the Union Address: "*Europe needs to fix its roof while the sun is shining*".

Table 2: Distribution of CSRs from legal perspective

European Semester	Exclusively SGP		Exclusively MIP		Jointly SGP and MIP		Integrated Guidelines		Total	
2012	18	(13%)	31	(22%)	5	(4%)	84	(61%)	138	(100%)
2013	18	(13%)	50	(35%)	6	(4%)	67	(48%)	141	(100%)
2014	19	(12%)	58	(37%)	8	(5%)	72	(46%)	157	(100%)
2015	11	(11%)	48	(47%)	10	(10%)	33	(32%)	102	(100%)
2016	13	(15%)	36	(40%)	9	(10%)	31	(35%)	89	(100%)
2017	12	(15%)	27	(35%)	8	(10%)	31	(40%)	78	(100%)
2018	11	(15%)	27	(37%)	5	(7%)	30	(41%)	73	(100%)

Source: EGOV calculations based on the European Commission.
Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets. The 2018 CSRs are yet to be adopted by the Council.

Table 2 disentangles CSRs according to the EU legal base, showing that:

1. Most of the recommendations have been underpinned by **the SGP and/or MIP legal bases** (with the exception of the 2012 cycle)[8]. Changes in relative proportions reflect varying policy challenges over time, noting that the introduction of streamlined Semester as from the 2015 cycle, with fewer recommendations, has led to an increase in the proportion of recommendations based on SGP and/or MIP legal bases.
2. As to the 2018 Semester cycle, nearly 6 out of 10 recommendations were underpinned either by the SGP or MIP legal bases or both.;
3. Out of 11 countries that are considered as experiencing either "imbalances" or "excessive imbalances" following the in-depth reviews published within the 2018 Country Reports in March 2018, ten received all of their recommendations underpinned by either exclusively MIP legal basis (DE, HR, CY, NL and SE) or MIP/SGP legal bases (IE, ES, FR, IT and PT). The remaining Member State (BG) received most of its 2018 CSRs based on the MIP legal basis.
4. Finally, five Member States received all of their respective draft 2018 CSRs based solely on Integrated guidelines: CZ (2 CSRs), DK (1 CSR), LT (3 CSRs), LU (2 CSRs) and MT (2 CSRs) - i.e. countries under the preventive arm of the SGP and for which no imbalances were identified under the MIP[9].

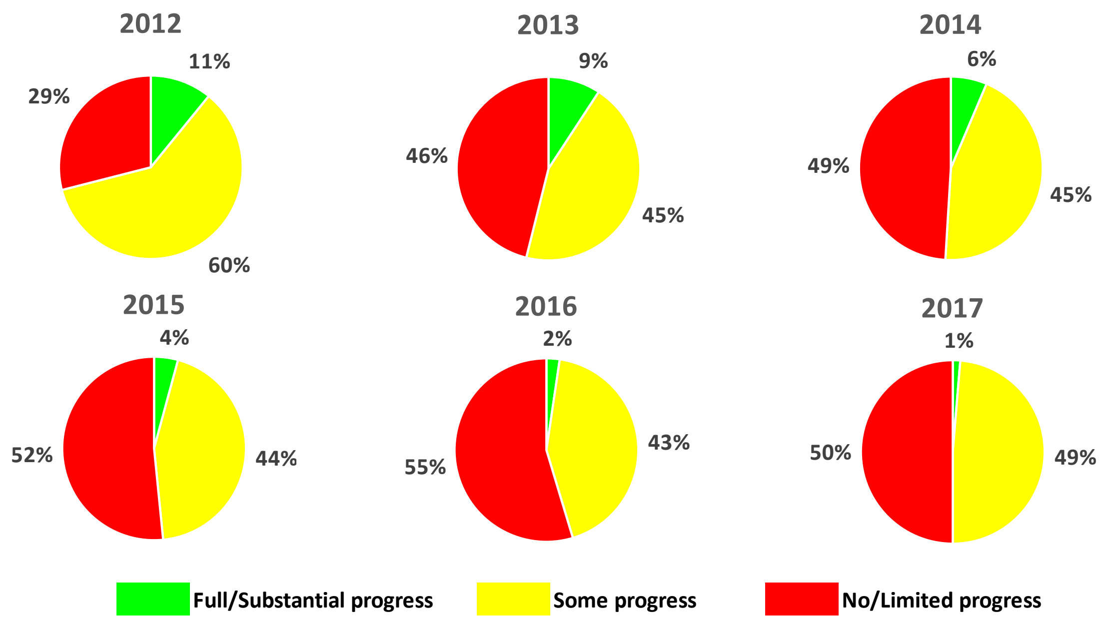
[8] The European Semester was introduced in 2010 and first ever recommendations were issued in Spring 2011 (2011 cycle). The MIP has been part of the Semester from the 2012 cycle onwards.

[9] The reverse is not necessarily true: a country that is under the preventive arm of SGP and not at risk of imbalances, in the sense of the MIP, will not automatically receive all its recommendations base on "Integrated guidelines".

2. Implementation of the 2012-2017 CSRs

Based on the regular annual assessment published by the COM in its [Country Reports](), more than half of CSRs (53%) were implemented, on average, with at least some progress over the period 2012-2017. The CSRs implementation record followed a downward trend over the period 2012-2016 before showing first signs of improvement in 2017[10]: the proportion of recommendations on which Member States made *at least some progress* declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before rising to 50% in 2017 (see Figure 1 overleaf). At the same time, the part of recommendations with full/substantial progress has gradually decreased from 11% in 2012 to mere 1% in 2017. Note that these results are based on the assessment provided at the level of CSRs as a whole (and not on the assessment at sub-recommendations level[11]) and exclude the compliance with the provisions of SGP[12]. Furthermore, the analysis assigns identical weights to each and every CSR within and across Member States as well as across time. It also abstracts from difficulties linked to implementation of various types of reforms, including the electoral cycle.

Figure 1: CSRs implementation over the period 2012-2017 (annual perspective)



Source: EGOV calculations based on the European Commission assessment provided in Country Reports.
Notes: (1) Based on the COM assessment of actions taken (rather than outcomes that may materialise with a lag), assigning identical weights to all recommendations, within and across Member States, irrespective of their institutional and political sensitivities. (2) Data for 2015 exclude CSRs related to the compliance with the SGP for seven Member States (DK, EE, LV, HU, MT, FI and UK), assessed separately in the COM assessments of the 2016 Stability and Convergence Programmes of 26 May 2016. (3) Data for 2016 exclude CSRs related to the compliance with the SGP for three Member States (DK, HU and UK), assessed separately in the COM assessments of the 2017 Stability and Convergence Programmes. (4) Data for 2017 exclude CSRs related to the compliance with the SGP for two Member States (HU and UK), assessed separately in the COM assessments of the 2018 Stability and Convergence Programmes.

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[10] As Deroose and Griesse (2014) already pointed out, the observed downward trend in CSRs implementation is partly embedded in the European Semester process to the extent that "*recommendations implemented during the previous round will not be repeated in the next vintage of CSRs. Thus, Member States that have 'picked the low-hanging fruit' first may effectively be facing a more challenging set of CSRs in subsequent rounds of the European Semester, even without an active intention by the Commission or the Council to 'get tougher'.*" This line of reasoning seems to be valid, in particular, from a medium-term perspective. Yet, in the long run, Member States will have some new 'low-hanging fruit' to harvest again. It remains to be seen to what extent this particular factor might explain the slight improvement in CSRs implementation record during the 2017 Semester cycle.

[11] One recommendation often tackles policy challenges in several areas (sub-recommendations).

[12] This has been the case since 2015 (assessment of the 2014 CSRs) due to an earlier publication of Country Reports (February/March) - that is before pubic finance data (for the preceding year) become available in April (see EDP notification). The compliance with the provisions of the SGP is assessed separately in the COM Assessment of Convergence and Stability Programmes published in May. However, the COM does not subsequently present an overview table with updated summary assessment for each and every Member State despite the fact that the outcome of assessment of compliance with the SGP feeds, in an un-transparent manner, into its multiannual assessment of CSRs implementation.

Implementation record has been uneven across policy areas and countries (see Annex 2 for an overview of progress made by policy area during the 2017 Semester). The changing speed of CSRs implementation '*often reflects the urgency of progress in specific areas, but also reveals the need for consensus building, notably where reform benefits are not uniformly spread*'[13]. Overall, Member States made most progress in the area of financial sector reform and public finances in response to the economic and financial crisis (see a separate EGOV thematic briefing on CSRs in the area of banking). However, only a limited progress has been made on reforms of tax regimes. The COM observes that '*the current economic environment provides a favourable window of opportunity to step up reform implementation*'.

Recognising that a number of CSRs relate to long-term structural issues, the **COM presents in its Chapeau Communication on the 2018 European Semester an assessment of CSRs implementation from both yearly and multiannual perspective**. The latter approach has been introduced in 2017 and according to this yardstick '*more two thirds of CSRs have been implemented with at least 'some progress''* over the period 2011-2017, leading therefore to somewhat more favourable picture of CSRs implementation record compared with year-by-year assessment. This element confirms, according to the COM, that '*important reforms are eventually being carried out, though in many cases the process takes time*'. However, it may be noticed that the COM did not published the methodology underlying its multiannual assessment[14].

The COM has repeatedly stressed that CSRs are focused on reform steps that can be implemented within 12-18 months. Under the current setup of the European Semester, they are proposed by the COM in May, before being adopted by the Council in July (of year t). However, their implementation is assessed already in February (of year t+1), namely after a period of eight months only. This is one of the factors that currently generates, *ceteris paribus*, a downward bias in the yearly assessment of CSRs implementation and is a reason why the multiannual approach might seem more appropriate. Yet on the other hand, the multiannual approach may introduce an upward bias in the results (i.e. reforms are assessed over variable time periods[15]).

Box 1: Committee of Regions - Territorial analysis of the 2018 Country Reports

The Committee of Regions shows in its analysis of the 2018 COM Country Reports that the number of recommendations that involve and address directly local and regional authorities (LRAs) has further increased from 24% in 2017 to 36% in 2018. However, viewed from a larger perspective (i.e. taking into account all CSR involving LRAs directly or indirectly as well as those CSRs not involving LRAs but having a territorial impact), the **territory-related recommendations accounted for 83% of all CSRs in 2018** (as compared with 76% a year earlier).

These **2018 territory-related recommendations predominantly address three policy challenges**, namely:
(1) *Building administrative capacity* (17 EU Member States);
(2*) Removing obstacles to investment at local and regional level* (24 EU Member States); and
(3) *Implementing the European Pillar of Social Rights* (24 EU Member States).

This analysis suggests that - given the differentiated territorial impacts of such reforms and the current division of powers and competences across levels of government - involving the LRAs as partners since the beginning of the Semester is crucial to ensure ownership of structural reforms.

To this end, at the Plenary Session of 11 May 2017, the Committee of Regions issued its opinion on improving the governance of the European Semester, proposing a Code of Conduct on the involvement of the local and regional authorities in the European Semester.

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13 The COM Communication on the 2018 European Semester: Country-specific recommendations of 23 May 2018, p.3,

14 In June 2018 Bruegel also published a Policy contribution "Is the European Semester effective and useful?" covering CSRs implementation from various perspectives, including assessment based on a multiannual approach.

15 One would expect that some action is taken on a majority of recommendations over a sufficiently long period - the rationale behind the coordination of macroeconomic policies under the European Semester. Furthermore, it remains unclear whether recommendations that were given during only one Semester Cycle and subsequently dropped despite no or limited progress are included in this multiannual analysis or not.

Box 2: ECOFIN conclusions on in-depth reviews and implementation of the 2017 CSRs

At its meeting of 23 May 2018, the Council discussed, among others, (i) in-depth reviews of macroeconomic imbalances in 12 Member States and (ii) implementation of the 2017 CSRs.

As to **the in-depth reviews**, inter alia, the Council:

- AGREES that 11 of the examined Member States (BG, HR, CY, FR, DE, IE, IT, NL, PT, ES and SE) are experiencing macroeconomic imbalances of various nature and degree of severity under the MIP, and that SI is no longer experiencing macroeconomic imbalances in the sense of the MIP;
- AGREES with the view of the COM that excessive imbalances exist in 3 Member States (HR, CY and IT);
- REITERATES that the MIP should be used to its full potential and in a comprehensible way, including with the excessive imbalance procedure applied where found appropriate by the COM and the Council;
- STRESSES that cyclical upswings can mask the build-up of macroeconomic imbalances;
- UNDERLINES the continued need for policy action and strong commitment to structural reforms in all Member States, especially when they face macroeconomic imbalances affecting the smooth functioning of EMU. Imbalances should be addressed in a durable manner that improve resilience and reduce risks, focusing on key challenges, and creating conditions for sustainable growth and jobs.
- NOTES that much progress has been achieved among net debtor countries in correcting their external imbalances, although negative net international investment positions exist that are generally coupled with large stocks of private or government debt. Simultaneously, NOTED that large current account surpluses remain almost unchanged in some creditor countries;
- REITERATES that Member States with current account deficits or high external debt should additionally seek to improve their competitiveness and prevent excessive growth in unit labour costs. Member States with large current account surpluses should create the conditions to promote wage growth, while respecting the national role of social partners, and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.

Regarding **the implementation of the 2016 CSRs**, inter alia, the Council:

- NOTES the similar implementation record of the 2017 CSRs compared to previous years with at least some progress recorded for around half of the CSRs. TAKES NOTE that reform implementation continue to be uneven across policy areas and countries;
- WELCOMES the results in the Commission`s multiannual assessment of CSR implementation that show at least 'some progress' with regard to more than two-thirds of the recommendations since the start of the European Semester in 2011, but NOTES this has been uneven across policy areas, countries and over time. RECALLS that the multiannual assessment by the Commission illustrates that a number of CSRs relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise;
- STRESSES that in the current favourable macroeconomic environment, reform implementation needs to be stepped up significantly to address the pending reform challenges outlined below, guarding against reform fatigue and overcoming political economy challenges;
- WELCOMES how the Commission has incorporated the European Pillar of Social Rights within the country reports to keep track of employment and social performances, which allowed for the focus on macroeconomic imbalances and the main economic reform priorities to be maintained.

Box 3: Commission proposal on EU budget - A Reform Support Programme and an Investment Stabilisation function

On 31 May 2018, the COM proposed, as part of the broader agenda to deepen the EMU, to create a **Reform Support Programme** and a **European Investment Stabilisation Function** within the next long-term EU budget 2021-2027, combining '*the key principles of solidarity and responsibility at all levels*'.

These two instruments are aimed at addressing '*some of the remaining challenges* [related to the incomplete architecture of the EMU] *and show how the EU budget can be mobilised in support of stability, convergence and cohesion in the euro area and the EU as a whole*'. They are complementary to, and will work in full synergy with, the reform priorities identified in the context of the European Semester.

Reform Support Programme

Building on the experience of the Structural Reform Support Programme, the **Reform Support Programme** will provide support for implementation of reforms, with an overall budget of EUR 25 billion. The programme will be voluntary, open to all EU Member States, with no co-financing required. It includes three separate but complementary instruments:

1) *Reform Delivery Tool* - to provide financial support for key reforms identified in the context of the European Semester, with EUR 22 billion available to all Member States.;
2) *Technical Support Instrument* - to provide technical expertise to help Member States design and implement reforms and to improve their administrative capacity, with a total budget of EUR 0.84 billion; and
3) *Convergence Facility* - to boost support for Member States wishing to join the euro within a defined timeframe, with EUR 2.16 billion available.

Enhanced Stability: European Investment Stabilisation Function

Building on the vision set out in the Five Presidents' Report, the Commission presented its roadmap for deepening Europe's Economic and Monetary Union in December 2017. As a next step, in the Multiannual Financial Framework, the COM proposal to establish a **European Investment Stabilisation Function** aims to protect public investment in the event of large asymmetric shocks, mitigating negative spill-over to other countries. This new instrument is focused on euro area Member States and countries participating in the exchange rate mechanism ERM II, which can no longer use their monetary policy as a lever for adjustment to shocks.

This Function will, in the event of large asymmetric shocks, provide back-to-back loans guaranteed by the EU budget of up to EUR 30 billion, coupled with a grant-like component to cover the full costs of the interest. The loans will be available to Member States complying with strict eligibility criteria based on sound financial and macroeconomic policies. The loans will give extra financial support at a time when public finances become stretched and should be geared towards maintaining growth-supporting public investments.

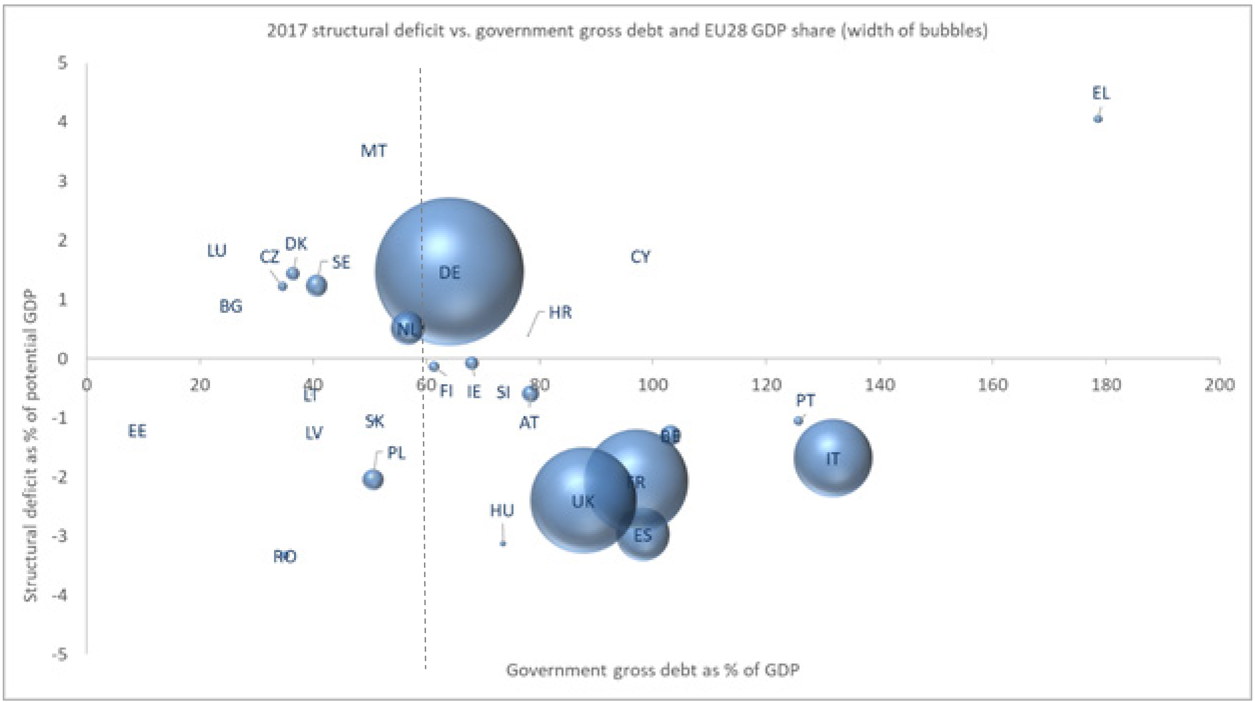
3. Implementation of the SGP: Latest developments

Member States submitted in April/May the 2018 Stability and Convergence Programmes (SCPs), detailing the national fiscal plans for the next three years. The COM recommendations for Council opinions on the SCPs were published as part of the CSRs of the Spring 2018 European Semester package of 23 May 2018; they were based on COM economic policy assessments using data from the COM spring 2018 forecast of 3 May 2018. The 2018 draft fiscal CSRs (i.e. CSR1) inter alia contain explicit fiscal targets in terms of annual structural adjustment and growth of net primary government expenditure.

An overview c**omparing the key public finance figures included in the 2018 SCPs and in the spring 2018 forecast of the COM** is presented in a separate EGOV overview. The comparison shows for some countries significant differences notably regarding the structural balance and debt forecasts.

The COM spring 2018 forecast data also show that the **structural budget position improved in 16 Member States during 2017, while it is expected not to improve in any Member State in 2018** (see separate EGOV briefing on SGP implementation and a separate EGOV briefing on structural balances). Figure 2 presents synthetically the 2017 performance of EU Member States in terms of structural balance and debt level and at the same time relative GDP size of the Member State. It can be noticed that relatively many economically big Member States (France, Italy Spain and United Kingdom), are in the category: high debt and negative development of the structural balance.

Figure 2: Structural budget balance and public debt across EU Member States for 2017



Source: EGOV based on Eurostat, data extracted on 19 June 2018.
Note: Size of bubbles is proportional to shares of Member States' respective GDP in total EU-28 GDP.

On the positive side, 2018 is expected to be the first year since the start of the EMU in which all governments achieve **nominal deficits of less than 3% of GDP**. The public deficit in the euro area is now forecast to fall to 0.7% of GDP in 2018 and 0.6% in 2019. In the EU, the deficit is forecast to be at 0.8% in 2018 and 2019. The **European Fiscal Board** inter alia concludes in its second report of June 2018 that the favourable economic outlook offers a prime opportunity to rebuild fiscal buffers (see Box 4).

Box 4: European Fiscal Board: Assessment of the fiscal stance for the euro area in 2019s

A second report of the EFB assessing the fiscal stance appropriate for the euro area as a whole was published on 18 June 2018.

The report concludes that the **favourable economic outlook offers a prime opportunity to rebuild fiscal buffer**s. Especially euro area Member States with a high government debt-to-GDP ratio need to do more than simply accrue the budgetary benefits of the economic expansion. Lest we repeat the mistakes of the past and rob ourselves of room to manoeuvre when the next crisis hits, this is the time to move towards a somewhat restrictive orientation of fiscal policy in the euro area. It is also the time to upgrade the EU's fiscal framework and prepare a capacity for joint stabilisation for the euro area.

The Board supports the Commission's recent proposal to establish a **European Investment Stabilisation Function**. The proposal goes in the right direction, but the road ahead of us is a long one. Due to current political and budgetary constraints, the size of the proposed instrument is very modest and some of the suggested design aspects will weigh on its effectiveness.

Moreover, the Commission's initiative faces opposing views about the right **balance between risk reduction and risk sharing**. The Board believes that the viability of any new element of risk sharing, such as the European Investment Stabilisation Function, will very much hinge on whether, in parallel, progress is made with risk reduction including simpler and stronger EU fiscal rules. Simpler, more enforceable rules are a complement to a joint stabilisation effort.

Besides the COM proposals for 2018 fiscal CSR, the **2018 European Semester Spring Package** included the following SGP related measures:

(1) A recommendation to the Council to abrogate **the Excessive Deficit Procedure** (EDP) for **France**, since the general government deficit dropped under the 3% threshold in 2017 and is forecast to remain below this threshold in 2018/2019. The ECOFIN Council closed the EDP for France on 22 June 2018. Now Spain remain the only Member State subject to an EDP, compared to 24 Member States in 2011.

(2) Reports on Belgium and Italy under Article 126(3) TFEU, reviewing their **compliance with the debt criterion** as defined in the Treaty and in Regulation (EC) No 1467/1997:

- **Belgium**:

  (a) The report of 23 May 2018 concluded that there is overall not sufficiently robust evidence to conclude on the existence of a significant deviation in 2017 and over 2016 and 2017 together; however, the COM also judged that the adjustment in 2018 appears inadequate to ensure compliance with the adjustment path towards the medium term objective (MTO); it therefore recommends Belgium to take the necessary measures as of 2018 to comply with the SGP;

  (b) Already in 2015, 2016 and 2017, the COM prepared Art. 126(3) reports for Belgium; all of them concluded that "*prima facie*" the debt criterion appears to be not fulfilled, but that a consideration of all relevant factors suggests that it should be considered as complied with.

- **Italy**:

  (a) The report of 23 May 2018 concluded that Italy complied ex-post with the required adjustment towards the MTO in 2017 and there is some progress in adopting and implementing growth-enhancing structural reforms, so that, overall, the analysis the debt criterion should be considered as currently complied with; however, the report also concluded that the adjustment in 2018 appears inadequate to ensure compliance with the adjustment path towards the MTO.

  (b) Already in 2015, 2016 and 2017, the COM prepared Art. 126(3) reports for Italy; while the 2015/ 2016 reports concluded on the basis of a consideration of all relevant factors that the debt criterion should be considered as complied with, the 2017 report concluded that the debt criterion should be considered as not complied with and postponed a decision on whether to recommend opening an EDP to the analysis of the COM 2017 spring forecast; the 2017 CSRs for Italy concluded in that respect: "*In April 2017, the Government adopted the requested additional consolidation measures. Therefore, no further steps are deemed to be necessary for compliance with the debt criterion (...)*".

(3) Warnings and recommendations to **Hungary** and **Romania**: warnings on the existence of an **observed significant deviation** from the adjustment path towards the MTO and recommendations with a view to correcting them. Romania has already been for one year in a Significant Deviation Procedure: on 16 June 2017 (see a separate EGOV briefing for an overview of structural budget balances);

(4) An opinion on the **updated Spanish DBP** of 30 April 2018, concluding that, overall, the updated DBP of Spain is broadly compliant with the provisions of the SGP, "*as the COM 2018 spring forecast projects that the excessive deficit will be corrected in a timely manner. However, the COM forecast projects that in 2018 neither the headline deficit target nor the required fiscal effort set by the Council notice will be met. On the contrary, the updated DBP is expansionary, while the Spanish economy is growing above its potential growth rate. The COM invites the authorities to stand ready to take further measures within the national budgetary process to ensure that the 2018 budget is compliant with the SGP.*"

(5) A Communication on the review of the flexibility under the SGP, which concludes the key objectives of the 2015 COM Communication on flexibility have been met to a large extent and includes the following summary: "*Four Member States have applied to make use of the structural reforms and/or investment clauses since 2015: **Italy, Latvia, Lithuania** and **Finland** for structural reform; **Italy** and **Finland** for investment. Nearly half of the Member States would have been eligible to apply to make use of the structural reform clause but most did not request to do so. The condition that a Member State must be experiencing bad economic times to benefit from the investment clause limited its use significantly. The need to respect the safety margin vis-à-vis the 3% deficit ceiling for 3 years has also proven constraining for some Member States.*"

On 6 December 2017, the COM published a Communication on "Further steps towards completing Europe's Economic and Monetary Union: a roadmap", which includes in the area of fiscal surveillance the following policy objective: "*Stronger economic, fiscal and financial integration, together with market discipline, should pave the way for a review of the EU fiscal rules in the longer term, with the aim of a substantial simplification by 2025."* Regarding the issue of simplification of the SGP, please see a separate EGOV briefing presenting some proposals from academics. In this context, the European Fiscal Board inter alia concludes in its second report of June 2018 that the viability of any new element of risk sharing, such as the European Investment Stabilisation Function, will very much hinge on whether, in parallel, progress is made with risk reduction including simpler and stronger EU fiscal rules; in its view, simpler, more enforceable rules are a complement to a joint stabilisation effort.

More information on the state of play regarding the implementation of the SGP based on the spring 2018 COM forecast figures is available in a separate EGOV note.

4. Implementation of MIP: Latest developments

In March 2018, the COM published its Communication on the "*2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews...*"[16] and the related "Country reports", which analyse the economic, fiscal and social situation in each Member State.

Based on the "In-depth-reviews" (included in the Country reports for those Member States considered at risk of macroeconomic imbalances), the Commission concluded that:

- **3** Member States are considered being in a situation of **"excessive macroeconomic imbalances":** Croatia, Italy and Cyprus;
- **8** Member States are considered being in a situation of "**macroeconomic imbalances**": Bulgaria, France, Germany, Ireland, Spain, the Netherland, Portugal and Sweden**;**
- **Greece** is under surveillance in the context of a macroeconomic adjustment programme;
- The other **16** Member States are not considered at risk of **"macroeconomic imbalances**".

All countries with imbalances are subject to specific monitoring, which is tighter for countries with excessive imbalances, and consists in dialogues with the national authorities, expert missions and regular progress reports, which should help monitoring of the implementation of the CSRs in the Member States concerned.

According to the COM, the correction of macroeconomic imbalances continues, but some sources of imbalances remain unaddressed and new risks have emerged. The Commission focuses on the external imbalances, noting that current account deficits have been corrected in several countries, but persistent surpluses still persist in other Member States. Private, public and external debt levels remain high in some Member States, and the Commission recommend declining debt, to reduce vulnerabilities. The Commission also notes increases in house prices in a growing number of Member States.

From the procedural standpoint, the COM has not recommended opening the **excessive imbalance procedure** for any country, despite recommendations expressed by several institutions (the Council, the ECB, the IMF and the Court of Auditors)

In the **draft 2018 CSRs** for Member States considered at risk of macroeconomic imbalances, the CSRs are in most of the cases underpinned by the MIP (see a separate EGOV note on the MIP procedure). Among the 32

[16] The document Implementation of MIP provides more detail on the current state of play.

draft CSRs targeting the eleven Member States with macroeconomic imbalances, 31 have the MIP as a legal basis.

So far, the **implementation of the CSRs based on MIP** appears to be rather weak: in fact, none of the MIP-related 2017 CSRs have been **fully implemented.** Only 37% of the MIP-based CSRs have been implemented with at least 'some progress', and for the remaining 63% the COM has assessed 'limited' or 'no progress' implementation (this compares with 50% 'limited' or 'no progress' in the case of all 2017 CSRs - in other words, CSRs underpinned by SGP legal basis and 'Integrated guidelines' have a better implementation record).

Table 3 depicts the situation of Member States with respect to MIP since its inception in 2012. Croatia and Italy have experienced *excessive imbalances* for five consecutive years. It can also be noted that one Member States (Sweden) has been experiencing *imbalances* since 2012.

Table 3: Commission's conclusions under MIP

No Imbalances							Imbalances							Excessive imbalances						
2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
CZ*	CZ*	CZ*	CZ*	BE	BE*	BE*	BE	BE	BE	BE	DE	DE	BG		ES	**HR**	**BG**	**BG**	**BG**	**HR**
DE*	DE*	DK	DK*	CZ*	CZ*	CZ*	BG	BG	BG	DE	IE	IE	FR		SI	**IT**	**FR**	**FR**	**FR**	**IT**
EE*	EE*	EE*	EE*	DK*	DK*	DK*	DK	DK	DE	IE	ES	ES	DE			SI	**HR**	**HR**	**HR**	**CY**
LV*	LV*	LV*	LV*	EE	EE*	EE*	ES	FR	IE	ES	NL	NL	IE				**IT**	**IT**	**IT**	
LT*	LT*	LT*	LT*	LV*	LV*	LV*	FR	IT	ES	HU	SI	SI	ES				**PT**	**PT**	**PT**	
LU*	LU*	LU	LU*	LT*	LT*	LT*	IT	HU	FR	NL	FI	**SE**	NL					**CY**	**CY**	
MT*	AT*	MT	MT*	LU*	LU*	LU*	CY	MT	HU	RO	**SE**		PT							
NL*	PL*	AT*	AT*	HU	HU*	HU*	HU	NL	NL	SI			**SE**							
AT*	SK*	PL*	PL*	MT*	MT*	MT*	SI	FI	FI	FI										
PL*		SK*	SK*	AT	AT*	AT*	FI	**SE**	**SE**	**SE**										
SK*				PL*	PL*	PL*	**SE**	UK	UK	UK										
				RO	RO*	RO*	UK													
				SK*	SK*	SK*														
				UK	UK*	UK*														
					FI	FI*														
						SI														

Sources: European Commission, ECB and EGOV.
Note: The table refers only to the streamlined categories applied from the 2016 cycle onwards. (*) Countries not considered at risk of macroeconomic imbalances, therefore not subject to in-depth reviews according to the Alert Mechanism Report.

Contact: egov@ep.europa.eu

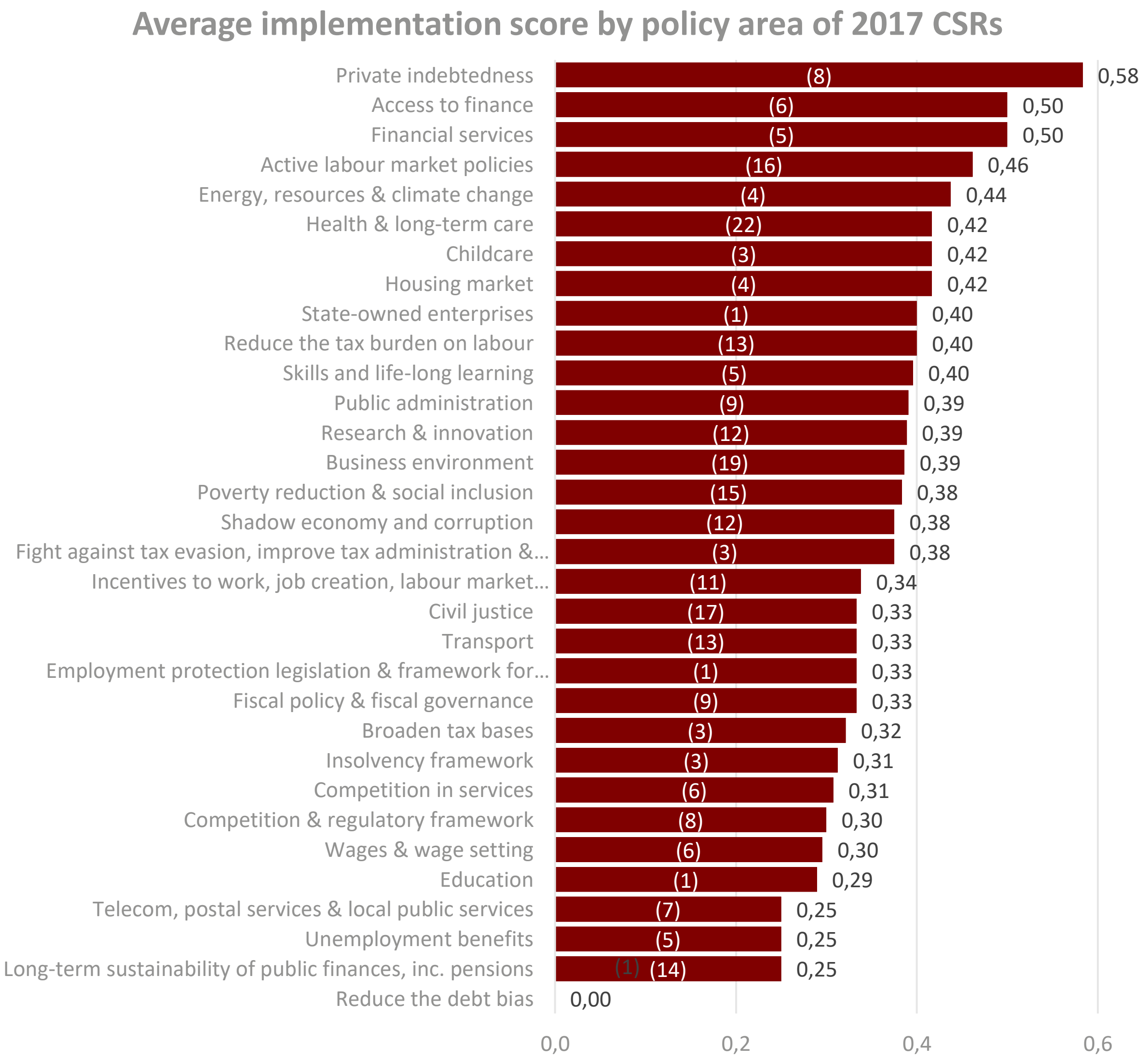
This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Annex 1: Key Macroeconomic indicators

	2013	2014	2015	2016	2017	2018[f]	2019[f]
Real GDP growth – *% change on previous year*							
EA19	-0.2	1.3	2.1	1.8	2.4	2.3	2.0
EU28	0.3	1.8	2.3	2.0	2.5	2.3	2.0
GDP per capita – *Purchasing power parities, Euro*							
EA19	28.600	29.500	30.900	31.000	n.a.	n.a.	n.a.
EU28	26.800	27.600	29.000	29.200	n.a.	n.a.	n.a.
General government budget balance – *% of GDP*							
EA19	-3.0	-2.5	-2.0	-1.5	-0.9	-0.7	-0.6
EU28	-3.3	-2.9	-2.3	-1.6	-1.0	-0.8	-0.8
General government structural budget balance[1] – *% of potential GDP*							
EA19	-1.3	-0.9	-0.8	-0.8	-0.6	-0.8	-1.1
EU28	-1.7	-1.6	-1.5	-1.2	-0.8	-1.0	-1.2
General government gross debt[2] – *% of GDP*							
EA19	91.6	91.9	89.9	89.0	86.7	86.5	84.1
EU28	85.8	86.5	84.5	83.3	81.6	81.2	79.1
Interests paid on general government debt – *% of GDP*							
EA19	2.8	2.6	2.3	2.1	2.0	1.8	1.8
EU28	2.7	2.5	2.2	2.1	2.0	1.9	1.8
Inflation (HICP) – *% change on previous year*							
EA19	1.3	0.4	0.0	0.2	1.5	1.5	1.6
EU28	1.5	0.5	0.0	0.3	1.7	1.7	1.8
Unemployment – *% of labour force*							
EA19	12.0	11.6	10.9	10.0	9.1	8.4	7.9
EU28	10.9	10.2	9.4	8.6	7.6	7.1	6.7
Youth unemployment – *% of labour force (15 – 24 years)*							
EA19	24.4	23.7	22.3	20.9	18.8	n.a.	n.a.
EU28	23.8	22.2	20.3	18.7	16.8	n.a.	n.a.
Current-account balance[3] – *% of GDP*							
EA19	2.2	2.5	3.2	3.6	3.5	3.4	3.4
EU28	0.9	0.8	1.1	1.6	1.6	1.4	1.5
Exports – *% change on previous year*							
EA19	2.1	4.7	6.4	3.3	5.3	5.4	4.4
EU28	2.2	4.7	6.2	3.5	5.4	5.2	4.3
Imports – *% change on previous year*							
EA19	1.4	4.9	6.7	4.6	4.3	5.2	4.5
EU28	1.7	5.3	6.4	4.7	4.6	5.1	4.4
Total investments – *% change on previous year*							
EA19	-2.5	1.8	3.3	4.6	3.2	4.2	3.4
EU28	-1.5	3.0	3.6	3.5	3.6	4.2	3.2
Total investments – *% of GDP*							
EA19	19.6	19.7	19.7	20.3	20.5	n.a.	n.a.
EU28	19.2	19.4	19.5	19.8	20.1	n.a.	n.a.
General government investments – *% of GDP*							
EA19	2.8	2.7	2.7	2.6	2.6	2.6	2.7
EU28	2.9	2.9	2.9	2.7	2.7	2.8	2.9
Total final consumption expenditure – *% change on previous year*							
EA19	-0.4	0.8	1.7	1.9	1.5	1.7	1.7
EU28	0.0	1.2	1.9	2.2	1.7	1.8	1.8
Households final consumption expenditure – *% change on previous year*							
EA19	-0.8	0.8	1.8	2.0	1.6	n.a.	n.a.
EU28	-0.1	1.2	2.1	2.4	1.9	n.a.	n.a.
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*							
EA19	30.7	31.0	30.8	30.7	n.a.	n.a.	n.a.
EU28	30.5	31.0	31.0	30.8	n.a.	n.a.	n.a.
Unit labour cost – nominal – *% change on previous year*							
EA19	1.2	0.6	0.4	0.7	0.8	1.4	1.0
EU28	0.4	1.1	2.0	-1.2	0.1	1.6	1.3

Source: Eurostat (as of 2018/06/25); (1) AMECO; (2) general government gross debt, non-consolidated for inter-governmental loans; (3) current account balance, adjusted; and (f), COM Spring 2018 forecast.

Annex 2: 2017 CSRs implementation record by policy area



Source: EGOV calculations, based on the 2018 Country Reports and relying on the policy categories used by the Commission; CSRs policy areas are mentioned both in the Commission Communication on 2017 CSRs and in their following assessment by sub-CSRs.

Note: (1) The assessment of implementation for a policy area shows the average of all sub-CSRs' assessments covering a specific policy area; its scale ranges from 0 to 1 with the following values: no progress (0), limited progress (0.25), some progress (0.5), substantial progress (0.75); full progress (1); due to the fact that a sub-CSR can cover multiple policy areas, the sum of all sub-CSRs broken down by policy area can exceed the number of sub-CSRs;

(2) The methodology for the CSRs policy areas attribution has not been published by the Commission as yet. Differences exist between the CSRs policy areas attribution at the moment of their publication (page 19) in May 2017 and their assessment in March 2018 (infographics on 2018 CSR implementation);

(3) The overall assessment of the CSRs related to fiscal policy doesn't not look at compliance with the Stability and Growth Pact.

Annex 3: Discontinued 2017 Country Specific Recommendations

Member State	Discontinued 2017 Country-specific Recommendations (Total number of 2017 CSRs = 78)		2018 Country-specific Recommendations Commission proposal of 23 May 2018 (Total number of draft 2018 CSRs = 73)	
	Legal Base	**CSR**	**Legal Base**	**CSR**
BG	Integrated Guidelines	**CSR 4:** Ensure efficient implementation of the 2014-2020 National Public Procurement Strategy.		**Fully dropped**
FR	MIP	**CSR 3:** **Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background**, including by revising the system of vocational education and training. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**	MIP	**Included in CSR 2:** Pursue the reforms of the vocational education and training system, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers. **Foster equal opportunities and access to the labour market, including for people with a migrant background** and people living in deprived areas. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**
HR	MIP	**CSR 3:** **Improve adult education,** in particular for older workers, the low-skilled and the long-term unemployed. **Accelerate the reform of the education system.**	MIP	**Included in CSR 2:** Discourage early retirement, accelerate the transition to a higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme. **Deliver on the reform of the education and training system** to improve its quality and labour market relevance for both young people and adults. Consolidate social benefits and improve their poverty reduction capacity.
PT	MIP	**CSR 4:** **Implement a roadmap to further reduce the administrative burden and tackle regulatory barriers** in construction and business services by the end of 2017. **Increase the efficiency of insolvency and tax proceedings.**	MIP	**Included in CSR 3:** Increase the efficiency of insolvency and recovery proceedings and reduce impediments to the secondary market for non-performing loans. Improve access to finance for businesses. **Reduce the administrative burden** by shortening procedural deadlines, using more tacit approval and reducing document submission requirements. **Remove persistent regulatory restrictions** by ensuring a proper implementation of the framework law for highly regulated professions. **Increase the efficiency of administrative courts, inter alia by decreasing the length of proceedings.**
SI	Integrated Guidelines	**CSR 2:** Intensify efforts to **increase the employability of low-skilled and older workers,** particularly through targeted lifelong learning and activation measures.	SGP	**Included in CSR 1:** Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Adopt and implement the healthcare and health insurance act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement**. Increase the employability of low-skilled and older** workers through lifelong learning and activation measures.

Source: EGOV note "Country-Specific Recommendations for 2017 and 2018: A tabular comparison and an overview of implementation".

Annex 4: The scoreboard for the identification of possible macro-economic imbalances

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
2017	3 year average of **Current Account Balance** as % of GDP	**Net Interna-tional Invest-ment Position** as % of GDP	% Change (3 years) of **Real Effective Exchange Rate with HICP deflators**	% Change (5 years) in **Export Market Shares**	% Change (3 years) in **Nominal ULC**	% y-o-y Change in deflated **House Prices**	**Private Sector Credit Flow** as % of GDP	**Private Sector Debt** as % of GDP	**General Governme nt Debt** as % of GDP	**Unemploy ment rate** (3-year average)	% y-o-y Change in **Total Financial Sector Liabilities,** non-consolidated	**Activity rate % of total pop. aged 15-64 -** 3 years change	**Long term unemploym ent rate % of active pop. aged 15-74** 3 years change	**Youth unemploymen t rate % of active pop. aged 15-24 -** 3 years change
Thresholds	**-4/+6%**	**-35%**	**±5% (EA) ± 11%**	**-6%**	**+9% (EA) + 12%**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2%**	**0.5%**	**0.2%**
BE	-0.1	55.6	0.7	2.90	1.0	2.0	2.3	179.9	103.1	7.8	1.7	0.3	-0.8	-3.9
BG	2.2	-40.5	-3.4	15.19	10.6	7.5	n.a.	n.a.	25.4	7.7	n.a.	2.3	-3.5	-10.9
CZ	1.0	-26.4	5.1	8.39	6.4	8.9	n.a.	n.a.	34.6	4.0	n.a.	2.4	-1.7	-8.0
DK	8.0	54.5	-2.1	0.52	3.2	3.1	n.a.	n.a.	36.4	6.0	n.a.	0.7	-0.4	-1.6
DE	8.5	59.1	-2.8	6.73	5.3	2.2	n.a.	n.a.	64.1	4.2	n.a.	0.5	-0.6	-0.9
EE	2.3	-30.2	2.4	1.99	12.6	1.8	n.a.	n.a.	9.0	6.3	n.a.	3.6	-1.4	-2.9
IE	9.1	-155.8	-6.1	66.11	-19.0	9.5	n.a.	n.a.	68.0	8.4	n.a.	0.8	-3.7	-9.2
EL	-0.7	-140.9	-2.4	-9.84	-0.6	-2.2	n.a.	n.a.	178.6	23.3	n.a.	0.9	-3.9	-8.8
ES	1.7	-80.8	-2.8	10.00	0.6	4.3	0.0	139.3	98.3	19.6	3.9	-0.3	-5.2	-14.6
FR	-0.7	-20.2	-3.2	2.19	1.3	2.4	n.a.	n.a.	97.0	10.0	n.a.	0.4	-0.3	-1.9
HR	3.5	-62.8	-0.4	19.04	-5.3	2.9	n.a.	n.a.	78.0	13.5	n.a.	0.3	-5.5	-17.9
IT	2.3	-6.7	-3.3	2.01	1.4	-1.6	n.a.	n.a.	131.8	11.6	n.a.	1.5	-1.2	-8.0
CY	-4.4	-120.4	-5.9	4.47	-2.3	1.5	n.a.	n.a.	97.5	13.0	n.a.	-0.6	-3.2	-11.3
LV	0.0	-56.5	1.1	6.18	14.8	5.6	n.a.	n.a.	40.1	9.4	n.a.	2.4	-1.3	-2.6
LT	-1.1	-35.5	1.3	9.94	16.2	5.0	n.a.	n.a.	39.7	8.0	n.a.	2.2	-2.1	-6.0
LU	5.5	42.3	-1.1	20.43	7.4	4.1	n.a.	n.a.	23.0	6.1	n.a.	-0.6	0.5	-7.0
HU	4.1	-54.8	-0.1	13.32	7.8	6.1	0.4	70.7	73.6	5.4	-8.5	4.2	-2.0	-9.7
MT	8.0	62.8	-2.6	9.42	1.8	4.7	n.a.	n.a.	50.8	4.7	n.a.	4.1	-1.0	-1.3
NL	9.1	69.6	-1.8	4.92	-0.8	6.3	2.4	212.7	56.7	5.9	2.2	0.7	-1.0	-3.8
AT	2.0	6.0	0.0	2.14	4.1	3.1	n.a.	n.a.	78.4	5.7	n.a.	1.0	0.3	-0.5
PL	-0.2	-60.7	-3.7	27.35	n.a.	2.0	2.8	76.4	50.6	6.2	6.4	1.7	-2.3	-9.1
PT	0.4	-105.7	-0.8	14.86	3.8	8.0	1.3	163.5	125.7	10.9	1.8	1.5	-3.9	-10.9
RO	-2.2	-46.6	-5.6	37.30	12.0	4.0	1.2	51.5	35.0	5.9	8.6	1.6	-0.8	-5.7
SI	5.3	-31.3	-2.3	18.35	2.6	5.3	n.a.	n.a.	73.6	7.9	n.a.	3.3	-2.2	-9.0
SK	-1.8	-63.9	-2.2	6.03	5.9	4.4	n.a.	n.a.	50.9	9.8	n.a.	1.8	-4.2	-10.8
FI	-0.1	5.7	-3.0	-4.08	-1.9	0.6	6.9	146.4	61.4	8.9	-4.9	1.3	0.2	-0.4
SE	4.0	9.6	-5.6	-3.99	3.0	4.6	n.a.	n.a.	40.6	7.0	n.a.	1.0	-0.2	-5.1
UK	-5.0	-12.8	-10.9	0.68	5.4	2.7	7.4	171.2	87.7	4.8	-1.8	0.9	-1.1	-4.9

Source: Eurostat, data extracted on 18 June 2018. The shaded cells indicate values outside the thresholds (see AMR).

Annex 5: EU28 Member States' progress towards the EU2020 targets

Member states	Employment rate (% of population aged 20 to 64)				R&D Target (% of GDP)				Greenhouse Gas Emissions[1] (For EU28 index 1990 = 100 For Member States index 2005=100)				Renewable Energy (% of final energy consumption)			
	2015	2016	2017	Target	2014	2015	2016	Target	2014	2015	2016	Target	2014	2015	2016	Target
EU (28 Countries)	70.1	71.1	72.2	**75**	2.03	2.04	2.03	**3**	77.41	77.99	n.a.	**80**	16.1	16.7	17.0	**20**
Belgium	67.2	67.7	68.5	**73.2**	2.39	2.47	2.49	**3**	87.3	90.6	92.8	**85**	8.0	7.9	8.7	**13**
Bulgaria	67.1	67.7	71.3	**76**	0.79	0.96	0.78	**1.5**	103.5	114.6	112.8	**120**	18.0	18.2	18.8	**16**
Czech Republic	74.8	76.7	78.5	**75**	1.97	1.93	1.68	**1**	93.5	99.4	94.3	**109**	15.0	15.0	14.9	**13**
Denmark	76.5	77.4	76.9	**80**	2.91	2.96	2.87	**3**	81.4	81.1	80.7	**80**	29.6	31.0	32.2	**30**
Germany	78.0	78.6	79.2	**77**	2.87	2.92	2.94	**3**	91.4	92.9	94.3	**86**	13.8	14.6	14.8	**18**
Estonia	76.5	76.6	78.7	**76**	1.45	1.49	1.28	**3**	112.1	113.2	107.6	**111**	26.3	28.6	28.8	**25**
Ireland	69.9	71.4	73.0	**69**	1.5	1.2	1.18	**2**	88.5	91.4	94.6	**80**	8.7	9.2	9.5	**16**
Greece	54.9	56.2	57.8	**70**	0.83	0.97	1.01	**1.2**	71.0	72.7	74.3	**96**	15.3	15.4	15.2	**18**
Spain	62.0	63.9	65.5	**74**	1.24	1.22	1.19	**2**	84.6	83.1	83.8	**90**	16.1	16.2	17.3	**20**
France	69.5	70.0	70.6	**75**	2.23	2.27	2.25	**3**	88.8	88.6	89.6	**86**	14.7	15.1	16.0	**23**
Croatia	60.6	61.4	63.6	**62.9**	0.78	0.84	0.85	**1.4**	84.3	89.4	82.0	**111**	27.8	29.0	28.3	**20**
Italy	60.5	61.6	62.3	**67**	1.34	1.34	1.29	**1.53**	79.3	81.7	83.0	**87**	17.1	17.5	17.4	**17**
Cyprus	67.9	68.7	70.7	**75**	0.51	0.48	0.5	**0.5**	93.8	97.0	100.2	**95**	8.9	9.4	9.3	**13**
Latvia	72.5	73.2	74.8	**73**	0.69	0.63	0.44	**1.5**	105.6	105.4	103.8	**117**	38.7	37.6	37.2	**40**
Lithuania	73.3	75.2	76.0	**72.8**	1.03	1.04	0.85	**1.9**	97.5	100.0	98.1	**115**	23.6	25.8	25.6	**23**
Luxembourg	70.9	70.7	71.5	**73**	1.26	1.27	1.24	**2.3**	87.3	84.8	83.9	**80**	4.5	5.0	5.4	**11**
Hungary	68.9	71.5	73.3	**75**	1.35	1.36	1.21	**1.8**	80.0	86.3	87.7	**110**	14.6	14.4	14.2	**13**
Malta	67.8	69.6	71.4	**70**	0.72	0.77	0.61	**2**	115.7	116.5	120.3	**105**	4.7	5.0	6.0	**10**
Netherlands	76.4	77.1	78.0	**80**	2.00	2.00	2.03	**2.5**	76.6	79.1	80.3	**84**	5.5	5.8	6.0	**14**
Austria	74.3	74.8	75.4	**77**	3.07	3.05	3.09	**3.76**	84.8	86.7	88.2	**84**	33.0	32.8	33.5	**34**
Poland	67.8	69.3	70.9	**71**	0.94	1.00	0.97	**1.7**	100.9	103.8	107.1	**114**	11.5	11.7	11.3	**15**
Portugal	69.1	70.6	73.4	**75**	1.29	1.24	1.27	**2.7**	79.9	83.6	83.1	**101**	27.0	28.0	28.5	**31**
Romania	66.0	66.3	68.8	**70**	0.38	0.49	0.48	**2**	96.1	98.8	96.3	**119**	24.8	24.8	25.0	**24**
Slovenia	69.1	70.1	73.4	**75**	2.37	2.2	2.00	**3**	88.5	90.6	93.3	**104**	21.5	21.9	21.3	**25**
Slovakia	67.7	69.8	71.1	**72**	0.88	1.18	0.79	**1.2**	86.1	87.5	86.0	**113**	11.7	12.9	12.0	**14**
Finland	72.9	73.4	74.2	**78**	3.17	2.9	2.75	**4**	88.8	88.0	92.3	**84**	38.7	39.2	38.7	**38**
Sweden	80.5	81.2	81.8	**80**	3.15	3.27	3.25	**4**	79.4	78.0	77.5	**83**	52.5	53.8	53.8	**49**
United Kingdom	76.8	77.5	78.2	**n.n.t.**	1.67	1.67	1.69	**n.n.t.**	77.7	78.0	77.6	**84**	7.0	8.5	9.3	**15**

Sources: Eurostat 2020 indicators (Extraction date: 19/06/2018), Europe 2020 Targets by the Commission, 2017 Country Reports. This table includes all the newest available figures.n.n.t. = no national target.

[1] The EU as a whole aims to reduce GHG emissions by 20 % **compared to 1990 levels**; hence the index for EU28 uses 1990 as its base year. The Member State targets, set out in the Commission Decision 406/2009, covering only sectors not included in the EU Emissions Trading System (EU ETS), are **relative to 2005 levels.** Thus the index for emissions from these sectors uses 2005 as its base year. Moreover, these national targets are presented in terms of an index rather than percentage deviation from the 2005 target as specified in the above-mentioned Commission Decision. By 2020, the national targets will collectively deliver a reduction of around 10 % in total EU emissions from the non-EU ETS sectors and a 21 % reduction in emissions for the sectors covered by the EU ETS (both compared to 2005 levels). This will accomplish the overall emission reduction goal of a 20 % cut below 1990 levels by 2020.

Member states	Energy Efficiency[2] (Primary energy consumption - in Mtoe)				Early School Leaving (% pop aged 18-24 with at most lower secondary)				Tertiary Education (% of pop aged 30-34 with tertiary education attainment)				Poverty/Social exclusion[3] (people at risk of poverty or social exclusion, in thousands)			
	2014	2015	2016	Target	2015	2016	2017	Target	2015	2016	2017	Target	2015	2016	2017	Target
EU (28 Countries)	1,508.6	1,531.9	1,542.7	**1,483**	11.0	10.7	10.6	**10**	38.7	39.1	39.9	**40**	119,049	118,036	n.a.	**96,070**
Belgium	45.2	45.7	49.0	**43.7**	10.1	8.8	8.9	**9.5**	42.7	45.6	45.9	**47**	2,336	2,335	2,296	**1,814**
Bulgaria	17.2	17.9	17.6	**16.9**	13.4	13.8	12.7	**11**	32.1	33.8	32.8	**36**	2,982	2,890	2,767	**3,161**
Czech Republic	39.3	40.0	39.9	**39.6**	6.2	6.6	6.7	**5.5**	30.1	32.8	34.2	**32**	1,444	1,375	n.a.	**1,466**
Denmark	16.6	16.6	17.2	**17.4**	7.8	7.2	8.8	**10**	47.6	47.7	48.8	**40**	999	948	979	**865**
Germany	291.1	292.7	295.8	**276.6**	10.1	10.3	10.1	**10**	32.3	33.2	34.0	**42**	16,083	16,035	n.a.	**n.a**
Estonia	6.4	6.2	6.1	**6.5**	12.2	10.9	10.8	**9.5**	45.3	45.4	48.4	**40**	315	318	n.a.	**255**
Ireland	13.3	14.0	14.6	**13.9**	7.0	6.2	5.1	**8**	51.9	52.5	53.5	**60**	1,207	1,135	n.a.	**850**
Greece	23.7	23.7	23.5	**24.7**	7.9	6.2	6.0	**10**	40.4	42.7	43.7	**32**	3,829	3,789	n.a.	**2,596**
Spain	112.6	117.1	117.2	**119.8**	20.0	19.0	18.3	**15**	40.9	40.1	41.2	**44**	13,175	12,827	n.a.	**9,386**
France	234.5	239.2	235.4	**219.9**	9.2	8.8	8.9	**9.5**	45.0	43.6	44.3	**50**	11,048	11,463	n.a.	**9,250**
Croatia	7.7	8.0	8.1	**11.15**	2.8	2.8	3.1	**4**	30.8	29.3	28.7	**35**	1,216	1,159	n.a.	**1,220**
Italy	143.8	149.6	148.4	**158**	14.7	13.8	14.0	**16**	25.3	26.2	26.9	**26**	17,469	18,137	n.a.	**12,882**
Cyprus	2.2	2.2	2.4	**2.2**	5.2	7.6	8.6	**10**	54.5	53.4	55.8	**46**	244	234	n.a.	**154**
Latvia	4.4	4.3	4.3	**5.4**	9.9	10.0	8.6	**10**	41.3	42.8	43.8	**34**	606	554	544	**619**
Lithuania	5.7	5.8	6.0	**6.5**	5.5	4.8	5.4	**9**	57.6	58.7	58.0	**48.7**	857	871	n.a.	**740**
Luxembourg	4.2	4.1	4.2	**4.5**	9.3	5.5	7.3	**10**	52.3	54.6	52.7	**66**	95	114	n.a.	**65**
Hungary	22.0	23.3	23.9	**24.1**	11.6	12.4	12.5	**10**	34.3	33.0	32.1	**34**	2,735	2,541	2,465	**2,344**
Malta	0.9	0.8	0.7	**0.7**	19.8	19.7	18.6	**10**	27.8	29.9	30.0	**33**	94	85	n.a.	**74**
Netherlands	62.4	64.4	64.8	**60.7**	8.2	8.0	7.1	**8**	46.3	45.7	47.9	**40**	2,744	2,797	n.a.	**2,332**
Austria	30.6	31.5	31.8	**31.5**	7.3	6.9	7.4	**9.5**	38.7	40.1	40.8	**38**	1,551	1,542	n.a.	**1,464**
Poland	89.2	90.0	94.3	**96.4**	5.3	5.2	5.0	**4.5**	43.4	44.6	45.7	**45**	8,761	8,221	n.a.	**9,991**
Portugal	20.6	21.7	22.1	**22.5**	13.7	14.0	12.6	**10**	31.9	34.6	33.5	**40**	2,765	2,595	n.a.	**2,557**
Romania	30.6	31.3	31.3	**43**	19.1	18.5	18.1	**11.3**	25.6	25.6	26.3	**26.7**	7,435	7,694	6,999	**8,535**
Slovenia	6.5	6.4	6.7	**7.3**	5.0	4.9	4.3	**5**	43.4	44.2	46.4	**40**	385	371	n.a.	**321**
Slovakia	15.3	15.4	15.5	**16.4**	6.9	7.4	9.3	**6**	28.4	31.5	34.3	**40**	963	950	n.a.	**941**
Finland	33.6	31.8	33.1	**35.9**	9.2	7.9	8.2	**8**	45.5	46.1	44.6	**42**	904	896	849	**770**
Sweden	46.2	43.8	47.1	**43.4**	7.0	7.4	7.7	**7**	50.2	51.0	51.3	**45**	1,813	1,799	n.a.	**n.a.**
United Kingdom	183.0	184.5	181.7	**177.6**	10.8	11.2	10.6	**n.n.t.**	47.9	48.2	48.3	**n.n.t.**	14,997	14,359	n.a.	**n.a.**

[2] Member States have set indicative national targets based on different indicators translated into absolute levels of primary energy consumption in million tonnes of oil equivalent (Mtoe).

[3] Most Member States have set national targets based on a reduction in the number of people living in poverty or social exclusions, in most cases compared to 2008 levels; some Member States, whose target is not included in this column, have set national targets based on different indicators related to the reduction in poverty/social exclusion: reduction in living in monetary poverty for BG; reduction of households with very low work intensity for DK; reduction in long-term unemployment for DE; reduction of jobless households fro NL; reduction in at risk poverty rate after social transfers for EE; reduction of not in the labour force except full-time students, long-term unemployed or on long-term sick leave for SE; target set under the umbrella of the 2010 Child Poverty Act and the Child Poverty Strategy 2011-2014 for UK.

Annex 6: Overview of proposals and positions expressed on the EMU ahead of the European Council/Euro Summit of 28-29 June 2018

Commission Proposals on the Deepening of the EMU (see also Commission Note ahead of the European Council and the Euro Summit of 28-29 June 2018)	French German Roadmap for the Euro Area	Letter from the President of the Eurogroup to the President of the Euro Summit
CONVERGENCE AND STABLISATION INSTRUMENTS		
No parallel structures, no specific euro area budget, but **two dedicated budget lines/instruments within the post-2020 MFF**: (1) the Reform Support Programme, and (2) the European Investment Stabilisation Function. For the **Reform Support Programme, the financial envelope would be in the order of at least EUR 25 billion over a seven-year period.** For the **European Investment Stabilisation Function, back-to-back loans guaranteed by the EU budget would subject to a fixed ceiling of EUR 30 billion**. The interest subsidy would be financed by a Stabilisation Support Fund endowed with annual national contributions equivalent to a share of their monetary income. (1) Reform Support Programme: Financial and technical **support for priority reforms** in all EU Member States, with a targeted facility for countries wishing to join the euro area: • Based on financial grants and support in the form of technical expertise • Provided on a voluntary basis to all EU Member States. • Reforms identified jointly by a Member State and the Commission in the context of the European Semester.	A specific Eurozone budget within the framework of the EU, most likely **separate from but negotiated in parallel with the post-2020 MFF**. Its twofold purpose would be to support: (1) competitiveness and convergence, and (2) macroeconomic stabilisation. Funding from both **national contributions, allocation of tax revenues and European resources.** These could include: the proposed reform delivery tool from the EU budget, an FTT according to the French model, resources from more efficient EU-wide taxation of the digital economy, and a share of revenue in connection with a CCTB. Strategic decisions on the Eurozone budget would be taken by the Eurozone countries. Decisions on expenditures should be executed by the European Commission. (1) Instrument for competitiveness and convergence would be delivered through investment in innovation and human capital. It would **finance new investments and come in substitution of national spending**.	**Differences of views remain on the need for and possible features of a Eurozone budget** for competitiveness, convergence and stabilisation in EMU. As regards funding, **different options in terms of national contributions and allocation of tax revenues, as well as sourcing from the European level could be explored.** The concerns related to moral hazard raised by some Members and the possible fiscal impacts will need to be taken into account. Subject to guidance from the Leaders, the Eurogroup stands ready to discuss the recent proposals on a possible euro area budget for competitiveness, convergence and stabilisation purposes, **including on the basis of the legal architecture proposed by the Commission for its investment stabilisation function within the MFF**. A **European unemployment insurance fund** for episodes of severe economic crises, could also be considered.

• Disbursements decided by the Commission based on the milestones and targets reached. (2) European Investment Stabilisation Function: Help **stabilise public investment levels** and facilitate rapid economic recovery in cases of large asymmetric economic shocks: • Based on loans with a grant component. • Covering the euro area and countries of the ERM II. • Subject to strict eligibility criteria. • Managed by the Commission.	(2) Genuine macroeconomic stabilisation function would be delivered through either: a) a **temporary suspension of the contribution to the Eurozone budget** for countries hit by a significant shock, which should be covered by the ESM and reimbursed over time by those countries; or b) a **European Unemployment Stabilisation Fund**. Such fund would lend money to a national social-security system in the midst of an economic crisis, which is resulting in significant job losses. Once the economic crisis is over, the country would be obliged to pay back the funds it borrowed.	
EUROPEAN STABILITY MECHANISM		
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. There would be no **automaticity in debt restructuring**; the EMF would facilitate dialogue between its Members and private investors, in line with IMF practices. The EMF would **assess the economic situation in the Member States**, and it can provide financial assistance if indispensable for the euro area or one of its Member States, shifting its objectives toward member states and away from the euro area as a whole. In case of request by a member state for stability support, the **EMF will request the Commission, in liaison with the ECB** to assess financial risk and public debt sustainability. **Precautionary credit lines** would provide support to member states without the need for the conditionality of a full program. The EMF would be **incorporated into EU law**. A **new qualified reinforced majority** (85% of the votes)	Conditionality would remain an underlying principle of all ESM instruments but adapted to each instrument. **Precautionary ESM credit line** (PCCL) would provide stability support in case of risk of liquidity shortages, without the need for a full program, but **subject to ex ante conditionality**: (1) compliance of ESM Member States eligibility criteria regularly monitored for beneficiary Member States and, (2) a formal commitment from the eligible beneficiary Member States to continuous adherence to the eligibility criteria. ESM would gain the **capacity to assess the overall economic situation in the Member States**, however, without duplicating the Commission's role and in full respect of the treaties. ESM would have an **enhanced role in designing and monitoring programmes** in close cooperation with	**On the ESM toolkit**, the Eurogroup will continue its review, --. Conditionality remains an underlying principle of the ESM Treaty and all ESM instruments, but the exact terms need to be adapted to each instrument. There is *broad agreement to enhance the effectiveness of* **precautionary tools,** *while ensuring the appropriate level of conditionality* in the form of more effective ex-ante eligibility criteria assessing the sound economic and financial performance of the Member State and respecting the limits of the EU treaties and national constitutional requirements. A formal commitment from the eligible beneficiary Member States to continuous adherence to the ex-ante eligibility criteria should take place at the moment the facility is drawn. **A majority of Members suggested a further development of the precautionary credit line, which should also be used to provide stability support to Member States at risk of losing market access without needing a full programme.** A reinforced ESM **should take a stronger role in designing and monitoring programmes, in close cooperation with the European Commission and in liaison with the ECB, in accordance with its competences**. **Some countries suggested that the ESM could also have capacity to assess the overall economic situation in the**

would be introduced for decisions concerning stability support and the deployment of the backstop. Accountability in the form of dialogue would be established between the EMF, national parliaments and the European Parliament.	the Commission and in liaison with the ECB and based on a compromise to be found between the Commission and the ESM. Possible introduction of CACs with single-limb aggregation. There would be **no automaticity in debt restructuring**; however, the ESM may facilitate the dialogue between its Members and private investors. ESM would be reformed on an **intergovernmental basis through a change of the Treaty Establishing the ESM**. The incorporation of the ESM into EU law, preserving the key features of its governance, would follow only in a second step.	**Member States, without overlapping the role of the Commission and in full respect of the allocation of competencies under the EU Treaty.** **Debt sustainability issues remain one of the most sensitive areas**. Subject to guidance from the Leaders, we may work further on a possible introduction of single-limb CACs for new issuances to prevent holdouts. Furthermore, it has been suggested that the ESM may, when appropriate, facilitate the dialogue between Member States and their creditors, following IMF practice. It should be noted that some Member States expressed concerns about the market impacts of this approach. In the longer term, Leaders could decide to incorporate the ESM into the EU framework, preserving the key features of its governance.
BANKING UNION		
Further reduction of nonperforming loans on EU banks' balance sheets: The package includes a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral, a proposal for a regulation amending the capital requirements regulation and a blueprint on the set-up of national asset management companies (AMCs).	For new NPLs: an endorsement of the proposal of the Commission and ECB guidance on how to address new NPLs by ensuring appropriate provisioning. For existing NPL stock: (1) **an aim of a 5% gross NPLs and 2.5% net NPLs for all SRB and all other banks**; (2) an appropriate monitoring by SSM and EBA to assess progress; (3) specific efforts, also involving their insolvency/debt enforcement regimes, by Member states/banks that do not reach these goals.	At the same time [by the end of 2018], we should reach an agreement in the **Council on a general approach** on a number of risk reduction measures, notably on the **NPL Package** (prudential backstops). To advance further, an objective assessment of the progress made in the implementation of risk reduction measures [is needed based on the following indicators proposed by the Commission, the SRB and the ECB :] the capital ratio, the leverage ratio, the liquidity ratio, the net stable funding ratio, **NPLs ratios** and MREL ratio.
Invites the EU legislators to adopt the pending proposal on **insolvency** by end 2018, so that sound companies can be restructured and continue to honour their bank loans.	**For insolvency regimes**: an endorsement of Union legislation on Accelerated Extrajudicial Collateral Enforcement (AECE) offering additional options for improvement of collateral enforcement.	By the end of 2018, we should reach an agreement in the Council on the existing **legislative proposals on insolvency**.
November 2016 Banking Package: Reinforcing the banking Single Rulebook with further risk reducing measures and rules to foster banks' infrastructure investment.	Endorsement of the Banking Package, as agreed on by the ECOFIN Council in May 2018. SRB banks should build up subordinated bail-in buffers steadily in line with the 2024 targets and 2022 intermediate targets.	With a view to a possible summit of Leaders in December, it is important that the co-legislators adopt the Banking Package this year and that the overall balance is preserved.

A backstop for the Banking Union: Making the agreed backstop for the Single Resolution Fund part of the future European Monetary Fund. The backstop will be **fiscally neutral in the medium term**, meaning that public assistance will be recovered by ex-post levies on the financial industry. Decision-making processes, requiring a reinforced qualified majority, to ensure that the backstop can be deployed quickly.	The ESM should be the backstop to the Single Resolution Fund. • The size of the backstop should be close to but **not bigger than the size of the SRF**. The backstop should replace the direct recapitalization instrument. • It should be provided in the form of a credit line. **Fiscal neutrality** over the medium term will be ensured especially through repayment of the common backstop via extraordinary ex-post contributions by the banking sector in three years with a potential extension of two years. • Provided that there is sufficient progress in all relevant fields of risk reduction, to be assessed by the relevant authorities (Commission, SSM and SRB), the entry into force of the backstop should be brought forward before 2024. • **The current governance/decision making-process**, meaning a decision by the ESM Board of Governors/Directors, will apply and continue to respect national constitutional requirements, while ensuring an effective, credible and rapid decision-making of the ESM backstop to fit the timing of a resolution case. • No country should be excluded from accessing the backstop.	There is consensus that a reinforced ESM will provide the **common backstop to the Single Resolution Fund**. This would be part of a broader reform of the ESM. The common backstop will take the form of a revolving credit line. In line with the 2016 Banking Union roadmap, a fully operational common backstop would enter into force ahead of the end of the transitional period in 2024, if sufficient progress is achieved in risk reduction measures. To inform the necessary political decision this should be assessed by the institutions and competent authorities in 2020, on the basis of MREL build-up and trend in the NPLs reduction. No country should be excluded from accessing the backstop. **Landing zone on the common backstop to the SR:F** -The ESM will provide the common backstop, in the form of a characteristics revolving credit line. -The size of the credit line will be aligned with the target level of the SRF. -The Direct Recapitalisation Instrument be should be replaced by the common backstop. -No country should be excluded from accessing the backstop Modalities - Fiscal neutrality - Maturities: 3 years+ possible 2 years extension. - Equivalent treatment would be ensured with non-euro area Member States participating in the Banking Union, via parallel credit lines to the SRF. Decision making - ESM BoD could take decisions on the use of the common backstop, arrangements with procedures in place for swift and efficient decision making whilst respecting national constitutional requirements. - Option to be developed further in second half of 2018. - Common Backstop would enter into force ahead of 2024 if sufficient progress is achieved in risk reduction measures. - Technical work, including on a possible revision of the IGA, to continue in the second half of 2018.
	Under the heading "ESM" "further work on an appropriate **framework for liquidity support on resolution**	Work needs to continue on a possible framework for liquidity in resolution, including on the possible institutional framework

European Deposit Insurance Scheme (EDIS): The proposal would further strengthen the protection of bank depositors across the Banking Union. - Commit to a staged calendar and start political discussions after the Euro Summit. - Follow an approach in several stages, starting with liquidity support where the common scheme would not cover national losses. - Aim for December 2018 Summit to conclude on a roadmap, including a target date for the first phase.	We reaffirm the importance of strengthening the Banking Union with a view to its completion. This means, on all elements of the ECOFIN Council Roadmap of June 2016, both risk reduction and risk sharing in the appropriate sequence. The work on a Roadmap for beginning political negotiations on EDIS could start after the European Council in June Under the heading "Banking Union", the following risk reduction measures are referred to: NPL (See above the proposal of a 5% NPL level), Insolvency regimes, banking package and AML.	Adhering to all elements of the 2016 roadmap in the appropriate sequence, after the European Council in June, the work on a roadmap for beginning political discussions on **EDIS** could start. To advance further, an objective assessment of the progress made in the implementation of risk reduction measures [is needed based on the following indicators proposed by the Commission, the SRB and the ECB :] the capital ratio, the leverage ratio, the liquidity ratio, the net stable funding ratio, **NPLs ratios** and MREL ratio The Joint report submitted by the Commission, the ECB and the SRB on the 6th of June provides a valuable basis for a regular assessment. [Regarding the objective assessment of the progress made in the implementation of risk reduction measures], views on the usefulness of including additional indicators differ substantially, **especially on sovereign exposures**, where views are the most divergent.
Enabling framework for Sovereign Bond-Backed Securities (SBBS): Help investors diversify their euro area sovereign portfolios and contribute to weakening the link between banks and their home countries, without involving any mutualisation of risks and losses among Member States.	The Commission proposal for Sovereign Bond Backed Securities has significantly more disadvantages than potential benefits and should not be further pursued.	n.a.
The Commission set up a working group in May 2018 involving the Commission services, the SSM and the three European Supervisory Authorities (EBA, ESMA and EIOPA) to "identify specific actions to be taken by the respective authorities, in order to improve the practical coordination of **AML supervision of financial institutions**, in the short term and beyond". To that end, the Commission has identified six possible actions: (i) Better use of the European Supervisory Authorities powers to ensure the correct application of EU law and supervisory convergence by national AML authorities; (ii) Better integration of AML considerations into prudential supervision; (iii) Greater use of supervisory colleges to consider AML issues; (iv) More clarity on when and how the power to revoke a banking licence (or other financial institution's license)	For **anti-money laundering,** we need a set of substantive core criteria which reliably measure the money-laundering-risks that exist in the banking sector. In addition, we need a robust monitoring process reporting on the effective implementation of these criteria. Both, criteria and monitoring process, should be developed by December 2018 by European Institutions, including SSM, and Member States, with France and Germany providing common input. It is essential that such process is not only of formal nature, but materially reduces risks stemming from AML-non-compliance.	Agreement on the importance of enhancing the current monitoring of the implementation of **Anti-Money Laundering measures**. As a first step, the institutions will prepare a report in July. Based on this, and in close consultation with the National Competent Authorities, there should be agreement on further measures by end 2018, possibly as part of an Action Plan.

can be used in the case of money laundering concerns; (v) Improving coordination and exchange of information; (vi) Consideration of any further steps necessary for a stronger common Union		
CAPITAL MARKETS UNION		
Commission proposal for a Pan-European Personal Pension Product (PEPP): New rules to provide pension providers with the tools to offer a simple and innovative Pan-European Personal Pension Product.	Support for the introduction of a Pan-European Personal Pension Product.	n.a.
Legislative proposal on business insolvency and restructuring: New rules on preventive restructuring and second chance for businesses.	Commitment to adopt a general approach on the Insolvency legislative. Further progress on additional insolvency issues should be made.	n.a.
Commission proposal for a review of the European Supervisory Authorities: Reform of the EU's supervisory architecture for stronger and more integrated financial markets.	Commitment to improve certain elements of the ESAs, through targeted adjustments of their governance and to achieve a level playing field across the EU, while focusing on areas that are of a significant cross-border nature and avoiding additional bureaucracy.	n.a.
More proportionate and effective rules for investment firms: A more targeted regime to reduce risks in investment firms' activities.	Commitment to adopt a general approach on the investment firm review by end 2018.	n.a.
Commission proposals implementing the Action Plan on sustainable finance: First legislative measures, including harmonised criteria to determine whether an economic activity is environmentally sustainable, to increase transparency and facilitate investment in sustainability through new sustainable benchmarks.	Commitment to bring forward important elements of sustainable finance and digitization by end 2018.	n.a.
Targeted amendments to the European Market Infrastructure Regulation (EMIR): Improving the functioning of the derivatives market and ensuring a more robust supervision of central counterparties (CCPs).	Commitment to aim for an adoption of the EMIR review by fall 2018.	n.a.