DEPARTURE DEMANDS

- Minimum unemployment allowance at EU level
- Integration of the ESM into EU law by creating an EMF
- Integration of the Fiscal Compact into secondary EU law
- Communitarisation of the Euro plus pact on competitiveness

DEPARTURES

- JD - European Deposit Insurance Scheme (EDIS)
- External representation of the EMU
- Integration of business statistics
- Democratic legitimacy in the Euro area
- Euro area treasury
- Stronger focus on employment and social performance
- Second building block of the Single Resolution Fund
- JD - Amendments to the Single Resolution Mechanism Regulation (SRMR)

EXPECTED ARRIVALS

- Structural Reform Support Programme 2017-2020

ON HOLD

- Statistics for the macroeconomic imbalance procedure
**ARRIVED**

- SINGLE SUPERVISORY MECHANISM (SSM)
- SINGLE RESOLUTION MECHANISM (SRM)
- NATIONAL PRODUCTIVITY BOARDS
- REINFORCED MACROECONOMIC IMBALANCE PROCEDURE
- ADVISORY EUROPEAN FISCAL BOARD
- FIRST BUILDING BLOCK OF SINGLE RESOLUTION FUND
- EUROPEAN SEMESTER IMPROVEMENT
- FIRST TARGETED AND STABILITY-ORIENTED REVISION OF THE SIX- AND TWO-PACK

**DERAILLED**

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**LEGEND**

- **BLACK** ECONOMIC UNION
- **RED** FINANCIAL UNION
- **BLUE** FISCAL UNION
- **GREEN** DEMOCRATIC ACCOUNTABILITY, LEGITIMACY & INSTITUTIONAL STRENGTHENING
- **WHITE** DEPARTED
- **RP** EUROPARL
- **ECJ** EUROPEAN COURT OF JUSTICE
- **C** COUNCIL
- **COM** COMMISSION
- **JD** JOINT DECLARATION ON THE EU’S LEGISLATIVE PRIORITIES FOR 2018-19
- **MFF** MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027

**GLOSSARY**

**DEPARTURE DEMANDS**

European Parliament legislative initiative reports in the fields covered by the Ten-Point Juncker Agenda

**DEPARTURES**

Initiatives announced by the European Commission in its annual Work Programme; legislative proposals submitted by the Commission to the Parliament and the Council; the files are considered departed when the Co-Legislators have started legislative work.
EXPECTED ARRIVALS
Legislative proposals close to be finalised

ON HOLD
Initiative blocked by one institution or under negotiations for more than 2 years; announced legislative initiatives or legislative proposals by the European Commission with no follow-up for more than 9 months

ARRIVED
Legislative proposals finalised and adopted by the two Co-Legislators: the European Parliament and the Council of the European Union

DERAILED
Proposals withdrawn by the European Commission

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The Economic and Monetary Union (EMU) has gone through profound changes in the aftermath of the financial, and economic crisis. A large number of weaknesses has been identified and addressed in the middle of the crisis: some by European legislation under the Community method, others by new inter-governmental agreements or by direct decisions by the European Central Bank.

Following the euro area leaders' commitments taken at the Euro Summit of 29 June 2012, one of the main purposes of recent efforts has been to break the nexus between banks and sovereigns in order to restore financial stability and confidence in the banking sector and protect taxpayers from bank failures.

A crucial first step on the way towards a more genuine EMU has been achieved in 2014 with the completion of the legal framework for an integrated Banking Union. It includes the establishment of a Single Supervisory Mechanism (SSM) for euro area banks, consisting of the European Central Bank as the overarching authority, alongside national banking supervisors of participating Member States. The ECB supervision will ensure that the new stricter banking regulations and standards are duly and homogenously implemented.

A common resolution mechanism for dealing with bank failures, namely the Single Resolution Mechanism, was also set up. In practice, the central authority of the SRM, the Single Resolution Board, prepares and oversees the resolution of failing banks, in close cooperation with the national resolution authorities. It is responsible for a common safety net, i.e. the Single Resolution Fund, whose resources are based on contributions from the financial sector and will be drawn upon for the resolution of failing credit institutions.

In addition, several reforms were undertaken to address the flaws of the initial EMU design and to strengthen the enforcement of fiscal rules and monitoring of macroeconomic imbalances to address the long-term asymmetries that had developed in the euro area. New rescue and crisis management mechanisms were introduced, such as the European Stability Mechanism (ESM), and a wider range of macroeconomic surveillance tools and rules, such as the 'six-pack' and 'two-pack', the Treaty on Stability Coordination and Governance (TSCG) and the Euro Plus Pact. The closer review of government expenditure and revenue and increased coordination by Member States and the European institutions instigated by these reforms has increased budgetary and economic coordination between countries (assuming that rules are properly enforced).

In an EPRS study, it has been estimated that the achievement of macro-resilient banking union would prevent a possible cost up to €100bn in case of new banking crisis. Improved coordination of fiscal policies could contribute up to €7bn annually. Common deposit guarantee scheme, when implemented, could save up to €5bn of additional costs in case of new banking crisis. Common unemployment insurance scheme could provide circa €17bn added value annually.
**Need for further deepening of the EMU**

However, despite the progress made in the past few years, the EMU remains incomplete. The Euro Summit of October 2014 underlined the fact that “closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union”. It called for work to continue to “develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity” and "to prepare next steps on better economic governance in the euro area".

Commission President Juncker announced in his "Political Guidelines" of July 2014, the submission in the course of 2015 of an important Package on Deepening the EMU and further steps towards ‘pooled sovereignty' in economic governance.

In order to design the way forward in deepening the EMU, a joint report 'Completing Europe's Economic and Monetary Union' prepared by the Presidents of the Commission, Jean-Claude Juncker, of the Euro Summit, Donald Tusk, of the Eurogroup, Jeroen Dijsselbloem, of the European Central Bank, Mario Draghi, and of the European Parliament, Martin Schulz, puts forward a possible way forward and highlights the principal steps required to complete EMU in the short to long term. Measures range from a closer fiscal and economic coordination and a complete Banking Union to putting further emphasis on social and employment issues in the EMU.

In autumn 2015, the Commission took several measures in order to deepen the EMU. It includes the revamping of the European Semester, a proposal for a unified external representation of the euro area and gradual steps towards the completion of the Banking Union, including a proposal for the establishment of a European Deposit Insurance Scheme.

The launching of European pillar of social rights was also initiated in March 2016.

In late November 2016, the Commission tabled a package of EU banking reforms, which aims to strengthen further the banking union structure.

The Commission also plans to submit a White Paper on the Future of Europe, which will include a specific section on the future of the EMU in spring 2017. This White Paper is expected to assess progress made until now. At the same time, it will mark the start of the second stage ‘Completing the EMU' included in the Five Presidents' report, which should outline ‘the next steps needed, including measures of a legal nature to complete the EMU'.

**The European Parliament's View**

In the view of the European Parliament (EP), future initiatives towards a more genuine EMU should include four essential features.

Firstly, the EP has repeatedly insisted on the importance of strengthening the social dimension of the EMU. The EMU's four building blocks (integrated financial, budgetary and economic policy frameworks, as well as democratic legitimacy and accountability) need to
be complemented by a Social Pact so as to strengthen the European social model. In this regard, the European pillar of social rights initiated in March 2016 is a step in the right direction. The feasibility of a minimum unemployment allowance at EU-level should be also further assessed.

Secondly, the EP has called for the existing framework for economic governance of the euro area to be further strengthened by ensuring greater ex-ante coordination of reform projects and by introducing Convergence and Competitiveness Instruments (CCI). Ex-ante co-ordination needs to be combined with incentives for the implementation of national reform measures.

Thirdly, a genuine EMU requires for its good functioning, better tax co-ordination at EU-wide level, including the adoption of a Common Consolidated Corporate Tax Base, together with effective fight against tax fraud and evasion. The EMU should on the longer term also be endowed with an increased budgetary capacity based on specific own resources.

Finally, the EP has repeatedly pointed to the democratic deficit in the current economic governance set-up and called for increased democratic scrutiny to ensure the legitimacy of decisions taken within the EMU. The financial crisis and the measures thereafter clearly highlighted that decisions at European level have a direct and strong impact on peoples' living conditions. Responsibility requires more democratic control and accountability. The EMU must be developed under close parliamentary oversight, which also implies the integration into the community framework of mostly intergovernmental arrangements adopted by the European Council and Member States to respond to the financial and debt crisis.

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References:

- Juncker, J-C., Five Presidents' Report on strengthening Europe's EMU, 2015
- Euro Summit, Statement, 29 June 2012
- Euro Summit, Statement, October 2014
CONTENT

First mentioned in the 2012 Four Presidents' Report 'Towards a genuine EMU', an insurance system set up at central level would have the advantage of improving the absorption of country-specific shocks. Thus, it would contribute to stabilising output fluctuations and increasing convergence of labour markets, leading in turn to a more effective single market. The Five Presidents' report of June 2015 reiterated the idea of establishing an automatic stabiliser for the euro area in the longer term, although the report does not hint explicitly at a common unemployment insurance scheme.

The European Parliament considers that ensuring unemployment compensation during a downturn or recession has significant macroeconomic stabilisation potential, as demonstrated by experience in the EU and the US. An important advantage is that this type of expenditure goes where it is most needed: to support the consumption of households whose labour income has suddenly shrunk, thereby mitigating a fall in households' demand. At the same time, it gives the affected economies greater fiscal space to implement structural reforms and invest where it is needed for a long-term and sustainable recovery.

In October 2012, the EP's Committee on Employment and Social Affairs adopted an opinion entitled 'Towards a genuine EMU', which called on the Commission to explore the feasibility and the added value of introducing a minimum unemployment allowance.

In addition, in successive resolutions on the European Semester for economic policy coordination, the EP reiterated its call for concrete steps in term of building a genuine social and employment pillar as part of the EMU, in particular by ensuring that the flexibility on the labour market is balanced by adequate levels of social protection.

Based on the Cost of non-Europe report: Common unemployment insurance scheme for the euro area by EPRS, the establishment of a common unemployment scheme in Europe in the course of the economic and financial crisis (2009-12) would have reduced the GDP loss in most affected euro area Member States by €71 billion euro, equivalent to circa €17 billion a year.

Nonetheless, the European Commission published a paper on automatic stabilisers in October 2013, exploring three European-linked options for such stabilisers. In September 2015, the Commission published another working paper, which is the first building block of the study 'Feasibility and Added Value of a European Unemployment Benefit Scheme'. It reviews existing research on a European unemployment insurance scheme and seeks to frame the current debate in a long-term perspective.

More recently, at the request of the European Parliament, the European Commission (DG EMPL) decided to commission a study
assessing the feasibility and value-added of a European unemployment insurance scheme in various forms. The study was released in September 2016. It seeks to ‘assess both the state of play and the future capacity of the EMU to respond and adapt to asymmetric shocks’ and concludes that macroeconomically ‘a European Unemployment Benefits Scheme is a useful tool to improve shock absorption capacity and is not mutually exclusive with market risk sharing’.

In line with the priorities of the Slovak Presidency of the Council, discussions were held at the informal ECOFIN meeting of 9 September 2016 about common macroeconomic stabilisation instruments. The Presidency note referred to a European Unemployment Insurance Scheme as part of longer-term measures with a view to establishing a Fiscal Capacity for the EMU.

Barring that, there has been no legislative follow-up to this demand of the European Parliament yet. The Commission claimed that the current Treaty does not provide a legal basis for tabling a legislative proposal for establishing a European unemployment scheme or other similar macroeconomic stabilisation systems as the EU does not have the competence for that at present.

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INTEGRATION OF THE ESM INTO EU LAW BY WAY OF CREATING A EUROPEAN MONETARY FUND (EMF)

DEPARTURE DEMANDS

DEMOCRATIC ACCOUNTABILITY, LEGITIMACY & INSTITUTIONAL STRENGTHENING

CONTENT

Established outside the Community framework by an intergovernmental Treaty, the European Stability Mechanism (ESM) is a permanent rescue mechanism aimed to safeguard the financial stability of the euro area.

It entered into force on 8 October 2012, replacing the European Financial Stability Facility, which was a temporary rescue mechanism, for all new economic adjustment programmes. The ESM may use a number of financial stability instruments such as the issuance of bonds or other debt instruments in order to provide stability support to euro area Member States experiencing severe funding problems.
In its resolution of 10 June 2013 on strengthening democracy in the future EMU, the Parliament reiterated its demand that the ESM be integrated into the Community framework and be made accountable to Parliament, notably by establishing a strong democratic scrutiny system. The EP adds as a reminder that it had received written assurance that the ESM would be subject to Parliament democratic scrutiny. On 1 February 2012, as part of the political compromise reached in the negotiations on the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), the President of the European Council, Herman Van Rompuy, confirmed at the EP plenary that the ESM operation will be ‘subject to the scrutiny of your Parliament’.

In a subsequent resolution of 13 March 2014 on the enquiry on the role and operations of the Troika, the EP asked the Council and the Eurogroup to respect the commitment made by the President of the European Council to negotiate an interinstitutional arrangement with the EP in order to establish an appropriate interim mechanism for increasing the accountability of the ESM. Indeed, as an intergovernmental mechanism, the ESM is not formally and directly scrutinised by the EP. Nonetheless, there may be ad hoc hearings organised with the Managing Director of the ESM before the ECON Committee.

The EP also underlined in its resolution that the European Court of Justice ‘Pringle’ case-law and jurisprudence opens up the possibility of bringing the ESM within the Community framework, without changing the Treaty on the basis of Article 352 TFEU, thereby calling on the Commission to put forward a legislative proposal for that purpose by the end of 2014. The Five Presidents’ Report acknowledged the need to integrate the ESM into EU law framework in the medium term, i.e. after 2017.

In a resolution adopted on 24 June 2015, the EP called again for the full integration of the ESM (and the ‘Fiscal Compact’) into the Community framework ‘and consequently made formally accountable to the Parliament’.

References:

- ESM Treaty
- European Parliament, Resolution of 12 June 2013 on strengthening European democracy in the future EMU, 2013/2672(RSP)
- Van Rompuy, H., Remarks by President of the European Council at the European Parliament on 1 February 2012, EUCO 17/12
- European Parliament, Resolution of 13 March 2014 on the enquiry on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries, 2013/2277(INI)

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INTEGRATION OF THE FISCAL COMPACT INTO SECONDARY EU LAW

DEPARTURE DEMANDS

DEEPER AND FAIRER ECONOMIC AND MONETARY UNION

CONTENT

Article 16 of the Treaty on the Stability, Coordination and Governance in the EMU (TSCG) which is commonly referred to as ‘Fiscal Compact’ stipulates that, within five years at most, ‘the necessary steps’ would be taken to incorporate the substance of the Treaty into the EU legal framework.

Signed in March 2012 by 25 EU Member States[1] and entered into force on 1 January 2013, the TSCG aims to strengthen the economic pillar of the EMU by introducing stricter fiscal discipline and enhancing economic policy coordination and convergence and improve the governance of the euro area. This Treaty, negotiated on an intergovernmental basis, complements the already existing measures introduced by the ‘Six-Pack’ and the ‘Two-Pack’.

The Fiscal Compact’s core principle is that national budgets must be in balance or in surplus. It also compels Member States to transpose into national law (preferably on constitutional level) a balanced-budget rule, a criterion which is deemed to be met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. They must also introduce a binding correction mechanism in the event of significant observed deviations from their medium-term objective. In addition, the Fiscal Compact stipulates that, if the abovementioned provisions are not complied with by a Member State, the Commission or any other country may take the case to the EU Court of Justice, which then rules on this issue. A financial sanction of up to 0.1% of GDP may be levied if the Member State does not comply with the Court’s judgement.

In a resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges, the EP called for the full integration of the ‘Fiscal Compact’ (and the European Stability Mechanism) into the Community framework on the basis of an...
assessment of the experience with its implementation according to Article 16 of the TSCG and consequently made formally accountable to the Parliament'. No steps have been taken by the Commission to that end until now.

Nonetheless, the Five Presidents' Report recognises that in the short term (Stage 1), the TSCG should be fully integrated within the EU legal framework. The Commission will publish a White Paper on the future of the EMU in the first quarter of 2017, which should also include a follow-up to Article 16 TSCG in line with the European Commission President’s commitment in his 2016 Letter of Intent.

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[1] Only the UK and the Czech Republic decided to opt out.

References:

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- Juncker, J-C., Five Presidents' Report on strengthening Europe's EMU, 2015
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Further reading:


For further information: Stanislas de Finance, legislative-train@europarl.europa.eu

HYPERLINK REFERENCES

- #_ftn1
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COMMUNAUTARISATION OF THE EURO PLUS PACT ON COMPETITIVENESS

DEPARTURE DEMANDS

> DEMOCRATIC ACCOUNTABILITY, LEGITIMACY & INSTITUTIONAL STRENGTHENING

CONTENT

The Euro Plus Pact, signed at the March 2011 European Council by 23 of the 27 Member States, aims to ensure stronger economic policy co-ordination and to establish a system of monitoring by the European Commission of a number of variables presumed to detect financial imbalances in individual EU countries.

As stated in the European Council conclusions: ‘the Euro Plus Pact will further strengthen the economic pillar of the EMU and achieve a new quality of policy co-ordination, with the objective of improving competitiveness and thereby leading to higher degree of convergence.’ The measures of the Pact were to be applied by individual countries, but enforced through the open method of co-ordination. The chief target variable of the Pact was supposed to be the development of competitiveness as measured by changes in the relative unit labour costs in common currency terms.

The implementation of commitments was due to be monitored politically by the Heads of State or Government of the euro area and participating countries on a yearly basis (whilst setting concrete actions to be achieved over the following 12 months), and reflected in the National Reform Programmes and Stability or Convergence Programmes. But, since the Pact was of purely declarative nature and not underpinned by any legal obligations, it has been largely dormant and has received little attention in Member States.

However, as outlined in the Five President's Report, its rationale is still relevant and, as such, the Report proposes the integration of its relevant parts into the EU legal framework within stage 1 of the deepening process (i.e. by mid-2017). Since then, the Commission has not proposed any roadmap to revive the Euro Plus Pact and integrate it into EU law.

The European Parliament has not (yet) issued any position on this file.

References:

European Council, Conclusions of 24/25 March 2011, EUCO 10/1/11
In 2014, the co-legislators adopted a recast of the 1994 Directive on Deposit Guarantee Schemes, which strengthens the protection of citizens’ deposits up to €100,000 (per depositor per bank) in the event of a bank failure or systemic crisis across the EU. This provision, Deposit Guarantee Scheme Directive (DGSD), is a key element of the Single Rulebook for a functioning Banking Union; it aims to safeguard financial stability by preventing capital flight and deposit outflows.

The Commission estimates that efficient risk pooling at euro area or EU level through a single mechanism would be the best means of avoiding capital flight and deposit outflows, which could have sizeable destabilising impacts on a local bank or the entire banking sector and, ultimately, on the real economy. An effective and credible pan-European system would therefore help reduce spillover effects from Member States. However, moral hazard remains a key issue; that is why the Commission presented at the same time a series of measures to reduce risks in the banking sector.

Research commissioned by the European Added Value Unit estimates the potential one-off cost of not having established a common deposit guarantee scheme (DGS) at 64 billion euro (0.49 per cent of GDP), in the case of a new financial crisis or, in case of a sovereign debt crisis, a potential cost of 32 billion euro (0.25 per cent of GDP). Although both scenarios are non-continuous by nature, a mid-range value of 48 billion euro has been retained for this report. Following the recent historical trend of financial or banking crises which affect the European economy occurring at roughly decade-long intervals, it has been estimated that the annual cost of not having a common deposit guarantee system would be broadly equivalent to dividing the anticipated one-off loss by ten, so representing a cost of some 5 billion on an annualised basis.

In November 2015, the Commission tabled a proposal for the establishment of a European Deposit Insurance Scheme (EDIS), in line
with the Five Presidents’ Report entitled ‘Strengthening Europe’s EMU’, however without the obligatory impact assessment. The Commission’s proposal entails a three-step approach. The first stage of ‘re-insurance’, to last until 2020, consists of the newly created EDIS providing funds to national deposit insurance schemes in the event that these run short. During the second stage of ‘co-insurance’, the national and European schemes would be co-financed. In the third and last stage of ‘full insurance’, to be operational as of 2024, EDIS would completely replace the national schemes and would be the sole insurance scheme for deposits in euro area banks. This gradual approach should allow time for Member States to update their domestic legislation in line with the scheme developed at EU level.

EDIS also has implications for the overall resolution framework for banks under the Single Resolution Mechanism (SRM); therefore the Commission proposes to amend the SRM Regulation (EU) No 806/2014, introducing a mutualised deposit insurance system as of 2024. On 11 October 2016, the Commission presented a supplementary analytical report (‘effects analysis’) on the effects of the proposal, addressing both quantitative and qualitative impacts.

The legislative process is in progress. The European Parliament welcomed the Commission’s intentions to create a reinsurance mechanism at EU level in its Banking Union annual report 2015 but it also required further measures to achieve a substantial reduction of risks in the European banking system. It highlighted ‘the commitment of the Commission to further reduce risks and ensure a level playing field in the Banking Union’.

In this light, on 4 November 2016, the rapporteur Esther de Lange (EPP, Netherlands) presented her draft report. In her view, the Commission’s effect analysis of October 2016 supports some degree of choice regarding the different options considered, since ‘all policy options analysed represent a clear improvement in relation to the present situation’. This becomes crucial as it supposedly will help to ‘achieve a broad majority’ within Parliament. While the Commission’s view clearly supports the introduction of EDIS (risk sharing) and implementing measures to strengthening the banking sector (risk reduction), in parallel, the draft report supports a more cautious and conditional approach and changes the substance (only two stages of implementation, see Amendm. 16) and the timeline of the Commission proposal (2024 earliest). While a reinsurance period would be introduced only in 2019, the second and final stage (EDIS) would only be introduced after the fulfilment of four conditions (Amendm. 31), hence after:

1. ‘the date of application, or, where relevant, the expiry of the transposition period of the international standard for Total Loss Absorbing Capacity (TLAC), for Global Systemically Important Banks (G-SIBs), and of revised rules in relation to a minimum requirement for own funds and eligible liabilities (MREL), for all credit institutions affiliated to the participating DGSs;[1]
2. the date of application, or, where relevant, the expiry of the transposition period of an insolvency ranking for credit institutions, harmonised at Union level, in relation to subordinated debt;
3. the date of application, or, where relevant, the expiry of the transposition period of a framework for business insolvency, harmonised at Union level, in relation to the early restructuring of companies in order to prevent and better handle the pressing issue of non-performing loans;
4. the date of application, or, where relevant, the expiry of the transposition period of an act amending Regulation (EU) No 575/2013 and Directive 2013/36/EU, resulting in a binding leverage ratio requirement. ...’
Reinsurance period (2019-2023): This period starts later than the Commission proposal and lasts one year longer. But in contrast to the proposal it provides up to 100% of liquidity shortfall to participating DGSs (Am. 23). To de Lange it is crucial that ‘the revamping of this first stage will give us the opportunity to make progress in the area of risk reduction, with a credible system of reinsurance / liquidity support already in place’.

EDIS period (as of 2024, ‘earliest date possible’): Only after fulfilling the conditions above ‘the European Commission would be empowered to adopt a delegated act to establish the exact date of application of the insurance period. In this final stage, an increasing level of excess loss of participating DGSs will be covered, achieving 100% coverage after five years. Funding that cannot be repaid with proceeds from insolvency proceedings does not have to be repaid’.

Changes proposed to the Deposit Insurance Fund (DIF): The DIF should amount to 0.8% of covered deposits, as proposed, but receive funding form the national and European level (Am. 62). National DGS will need to be depleted first before making use of EU level funding. In addition, the EU level would become the combination of an ‘individual risk-based subfund’ and a ‘joint risk-based subfund’. The Commission’s idea to make nationality of banks irrelevant would thus become mitigated.

The Plenary vote is scheduled for February 2017.

The Council established an ad hoc working group in January 2016 to examine not only the EDIS proposal but also measures aimed to reduce risks in the banking sector. Therefore, the ECOFIN Council agreed on a roadmap to complete the Banking Union at its meeting on 17 June 2016. It pledges to start negotiations at political level ‘as soon as sufficient further work has been made on the measures on risk reduction’ while taking note of ‘the intention of Member States to have recourse to an intergovernmental agreement when political negotiations on EDIS start’.

On 25 November 2016 the Council’s ‘progress report’ accounts for the ongoing work at technical level and covers the work carried out on the EDIS as well the discussions on measures to strengthening the Banking Union. It mentions concerns of Member States as to scope, stages, and governance issues.

Scope: Discussions concerned ‘(i) the inclusion of the third-country branches, if Member States require those branches to join a Deposit Guarantee Scheme after execution of the mandatory equivalence test (Art. 15 (1) DGSD); and the (ii) the inclusion of certain entities excluded from applying the CRR/CRD IV rules’. So far, the DGSD allows Member States to require a third-country branch to join a national DGS unless the third country protection is considered as equivalent. Thus, some representatives feared that EDIS needed to have the same scope as the DGSD in order ‘to avoid a two-tier system’ (Pts 14-16).

Stages: During the Dutch Presidency, technical discussions focussed on provisions related to the full insurance stage first. ‘The idea was that it would be easier to agree on the intermediate stages, if an agreement on the full insurance stage was reached.’ Since most Member State representatives ‘share the view that the original timing of EDIS cannot be met ... the Presidency opened a broad
discussion on options and alternatives, which could be further analysed’, like skipping the reinsurance phase or having only this phase as an overall design of EDIS (Pt 28).

**Governance:** Technical discussions dealt with the impact of EDIS on national designated authorities, as defined by the deposit guarantee scheme Directive (DGSD), if these are public or private authorities and also with the role of the Single Resolution Board (SRB).

For the time being, ‘the issue of the suitability of the legal basis, being politically very sensitive and closely linked to the final design of the EDIS, was temporarily set aside for it to be assessed at a later, more advanced stage of the discussions’ (Pt 9).


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- Council, **Progress report (State of play)**, 25 November 2016
- European Commission, **Communication** on “Towards the completion of the Banking Union”, COM(2015) 587
- European Commission, **Proposal** for a Regulation amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme, COM(2015) 586
- Juncker, J-C. et al, **Five Presidents’ Report** on **strengthening Europe’s EMU**, 2015
- European Parliament, Committee on Economic and Monetary Affairs **Working document on European Deposit Insurance Scheme (EDIS)**, 2015/0270(COD)
Further reading:


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RAPPORTEUR
Esther DE LANGE

HYPERLINK REFERENCES

- #_ftn1
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The large economic and financial size and the existence of a single monetary and exchange rate policy for the euro area make EU policy decisions and economic developments increasingly relevant for the world economy. Yet, in the international financial institutions, the EU and the euro area are still not represented as one.

As part of its package aimed at further improving the governance of the Economic and Monetary Union (EMU) and following up on the short-term reform proposals made in the Five Presidents' Report, the Commission tabled on 21 October 2015 a proposal for a Council Decision under Article 138 TFEU laying down the measures with a view to gradually establishing unified representation of the euro area in the International Monetary Fund (IMF). At the same time, the Commission issued a Communication setting out the path towards an increasingly unified representation of the EMU, in particular in areas where the EMU is being deepened further, for instance as regards issues relevant to the Banking Union.

The purpose of the Commission’s proposal is to ensure a more unified representation of the euro area within international economic fora, such as the IMF. The Commission believes that it would *inter alia* ‘better reflect the economic and financial weight of the euro area in the world economy’ and ‘would allow the euro area to play a more active role in the IMF and to shape effectively the future global financial architecture’. In its 2017 Work Programme, the Commission invited the Council to accelerate the adoption of the proposal.

This first step is in line with a long-standing demand from the European Parliament. In several resolutions, the European Parliament has indeed called on the Commission to present a proposal on a single external representation of the euro area in international financial institutions, on the basis of Article 138 TFEU.
In addition, in its resolution of 17 December 2015, the European Parliament ‘asks the Commission to ensure that the international representation of the euro is subject to the democratic scrutiny of Parliament’.

More recently, it reiterated in an own initiative report on the EU role in the framework of international financial, monetary and regulatory institutions and bodies (Rapporteur: Sylvie Goulard) that ‘progressive streamlining of the EU representation should be implemented over the next years, first through enhanced coordination and then, after an assessment, through the unification of seats’. At the same time, high standards of democratic legitimacy, transparency and accountability should be associated. It includes ‘the adoption of an interinstitutional agreement with the aim of formalising a ‘financial dialogue’, to be organised with the European Parliament for the purpose of establishing guidelines regarding the adoption and the coherence of European positions in the run-up to major international negotiations, making sure that these positions are discussed and known ex ante and ensuring a follow-up, with the Commission reporting back regularly on the application of these guidelines and scrutiny’. The Parliament considered that:

- ‘The European institutions, the Member States and, where appropriate, the heads of the international organisations concerned [should] be invited to attend’;
- ‘The nature (public or in camera) and frequency of this dialogue would depend on practical requirements’;
- ‘Active involvement of national parliaments at their respective levels, by controlling the positions taken by the representatives of the member states concerned, [was] also necessary’.

The ECOFIN Council of 10 November 2015 held a first exchange of views on the issue. On 17 June 2016, it asked the Economic and Financial Committee to continue work on proposals to unify euro area representation and to analyse related issues and to report back in autumn 2016. Work is still in progress at group party level.

In the future, the Commission may take additional initiatives in order to reinforce the representation of the euro area in other international fora such as the World Bank. In the longer term (i.e. stage 2 in the Five Presidents’ report), a full-time President of the Eurogroup could be representing the euro area in international fora.

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In line with the objectives and provisions of the European Statistical Programme 2013-2017, the European Commission has been in the process of rethinking the production process of business statistics. It intends to revise the European legal framework relating to the compiling of business statistics in order to adapt it to new business models.

The Barroso-Commission had announced in its 2014 Work Programme (REFIT actions), the development of a cross-cutting legal framework for the systematic collection, compilation, transmission and dissemination of European statistics related with the structure, economic activity, competitiveness, global transactions and performance of the business sector (FRIBS). The REFIT initiative was
confirmed in the 2016 and 2017 Commission Work Programmes, as part of a statistical package.

The main policy objectives for this new framework are: (i) to streamline and rationalise the reference framework for European business statistics, reducing unnecessary statistical burden on respondents; and (ii) to define a new architecture for European business statistics instrumental to the compilation of quality and purpose-relevant European business statistics, including the provision of higher quality statistics on services, globalisation and entrepreneurship.

Eurostat launched a public consultation, which ended on 23 November 2015. The results have been analysed in greater detail and the resulting cost-benefit analysis constitutes one of the building blocks of the final Impact Assessment Report of FRIBS.

Estimated savings and benefits (by the Commission services) for businesses amount to at least 13.5% or €93 million compared to the current annual burden. As regards, data compilers, the Commission estimates that there could be a maximum net cost savings of €10 million and maximum net cost increase of €9 million over a 10-year implementation period, depending on the implementation modalities, which may vary from one Member State to another.

The Commission is expected to table a proposal in the first quarter of 2017.

The European Parliament has not yet issued any position on this file.

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STRENGTHENING DEMOCRATIC LEGITIMACY AND ACCOUNTABILITY IN THE EURO
AREA

> DEMOCRATIC ACCOUNTABILITY, LEGITIMACY & INSTITUTIONAL STRENGTHENING

CONTENT

The financial and economic crisis as well as the measures adopted thereafter clearly highlighted that decisions at European and intergovernmental levels have a direct impact on peoples' living conditions and the economy. Considering the limited power of the European Parliament and of the national Parliaments[1] to exercise effective parliamentary control on such measures, this situation triggered a debate about the EU’s democratic scrutiny over decisions taken by the European Council and Member States outside the EU framework and the resulting democratic deficit in the area of economic governance. Responsibility requires more democratic control and accountability.

In its resolution of 20 November 2012 with recommendations to the Commission following the report of the four Presidents "Towards a genuine EMU", the European Parliament put special emphasis on increasing transparency, legitimacy and accountability of EMU goovernance. In this respect, the Parliament has repeatedly called for the respect for the Community method and condemned the increased use of intergovernmental agreements. The Parliament has also called for additional democratic control and accountability in the event of the strengthening of the EMU, including the transfer or creation of new competences at EU level.

The European Parliament, in another resolution of 24 June 2015, also stressed 'the lack of ownership at national level and [...] appropriate democratic accountability mechanisms' faced by the current economic governance framework. It called for better ownership, more transparency and sustained parliamentary involvement. For example, intergovernmental agreements negotiated during the crisis, such as the European Stability Mechanism (ESM) and the Fiscal Compact, should be included into the Community framework, while an inter-institutional agreement should be negotiated so that the scrutiny role of the Parliament in the European Semester is formally ensured.

Furthermore, in its resolution on the 2016 Annual Growth Survey adopted on 25 February 2016, the Parliament highlighted ‘the importance of national parliaments debating country reports and country-specific recommendations and voting on national reform programmes, as well as national convergence or stability programmes’. The EP also called on ‘the Member States to involve the social partners, local and regional authorities and other relevant stakeholders in a structured manner, taking advantage of the early publication of country reports’. In this regard, the EP has called for ‘a proposal of a code of conduct for the involvement of local and regional authorities in the European Semester’ in a resolution on the European Semester and the implementation of the 2016 priorities.
adopted in late October 2016.

The Five Presidents’ Report hinted that Economic Dialogues may be further enhanced by agreeing on dedicated time-slots during the main steps of the European Semester cycle. In this respect, the European Commission has already engaged further with the European Parliament. A plenary debate took place in November 2015 and 2016, during which Commission Vice-President Dombrovskis discussed the key economic priorities for the EU ahead of the adoption of the 2016 and 2017 Annual Growth Surveys, respectively. Similarly, an exchange of views with the Commission and Eurogroup Presidents took place in the plenary session of 15 December 2015 to discuss the draft euro area recommendations proposed by the Commission. This was welcomed by the European Parliament in its resolution on the 2016 Annual Growth Survey. In his 2016 State of the Union speech, the Commission President also stressed that since the beginning of his mandate, Commissioners have made over 350 visits to national parliaments, including to discuss European Semester and EMU issues. The Commission claims that views expressed by the social partners were also taken into account.

The early publication of Country Reports by the Commission since the 2015 European Semester has also led to an increased involvement of national parliaments and social partners, already before the Commission issues a new set of Country-Specific Recommendations. Yet, those concrete steps have not yet been formalised into an inter-institutional agreement.

In addition, the Five Presidents’ report suggested that representatives from the Council and the Commission could participate in the European Semester week in which Members of the European Parliament and national parliaments discuss budgetary policies and other economic and social issues. It could be part of a non-binding inter-institutional agreement.

Lastly, the Report foresees in the short term the integration of the Fiscal Compact, the Euro Plus Pact and the Single Resolution Fund into the EU legal framework; in the medium term, the ESM could be fully integrated within EU Treaties as well. The Parliament has called for the integration of the abovementioned intergovernmental agreements into EU law.

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[1] Note that scrutiny and oversight by national parliaments may differ significantly from one Member State to another.

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CREATION OF AN EURO AREA TREASURY / AFTER 2017-7

DEEPER AND FAIRER ECONOMIC AND MONETARY UNION / €129BN

In his 2015 ‘State of the Union’ speech, Commission President Jean-Claude Juncker announced the longer-term aim of setting up a euro area treasury (after mid-2017), which would be accountable at European level as decisions would be increasingly made collectively. According to him, it should be built on the European Stability Mechanism (ESM), which has a potential credit volume of €500 billion. Along that line, the ESM should progressively assume a broader macroeconomic stabilisation function to better weather shocks that cannot be managed at the national level alone.

This euro area treasury would be responsible for a fiscal capacity established in order to help euro area countries withstand shocks and promote structural reforms. Resources may come from own resources, national contributions or both. The Four Presidents’ report of 2012 had also considered that a fiscal capacity could be able to issue debt in the longer term. As a prerequisite, fiscal policies at national level should be sound and sustainable, in line with the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance.

Against the backdrop of the review of economic governance, the EP called on the EU stakeholders to explore the option of ‘a euro area fiscal capacity based on specific own-resources which should, in the framework of the Union budget with European parliamentary control, assist Member States in the implementation of the agreed structural reforms based on certain conditions, including the effective implementation of the National Reform Programmes’.

A specific own initiative report on a budgetary capacity for the euro area is currently being drafted by the ECON Committee (Rapporteurs: Pervanche Berès and Reimer Böge), ahead of the presentation of a White Paper by the Commission in spring 2017. The rapporteurs have identified a number of general principles, noting the importance of preventing permanent transfers and moral hazard by means of convergence, good governance and conditionality, enforced by institutions democratically accountable at euro area and national level. In addition, fiscal capacity should be established within the EU legal framework, be in addition to existing EU funding instruments, and be endowed with sufficient resources to effectively carry out its economic stabilisation role for the euro area.

The document identifies three complementary functions for such a fiscal capacity: 1) promoting convergence and the implementation
of structural reforms; 2) absorbing asymmetric shocks; and 3) absorbing symmetric shocks. In particular, as regards the absorption of asymmetric shocks, the establishment of a tool to address such shocks at euro-area level is deemed crucial for the stability of the currency area. Reference is made to the alternative models of a ‘rainy day fund’ and of a European unemployment benefit scheme, considering that a European Monetary Fund (EMF) built on the current European Stability Mechanism (ESM) should finance either of these. With over 800 amendments to the draft report tabled, the tentative calendar for the procedure currently schedules possible adoption of the report by the joint committee in early 2017, with a vote in plenary at the February 2017 plenary sitting.

However, it should be noted that discussions about a euro area treasury are still at a very preliminary stage. Many features of this treasury remain unknown, namely its ultimate purpose, its size, details on the contributions to the budget capacity and on its disbursements (i.e. grants or loans), and lastly whether a Treaty change would be required or whether it would be based on an intergovernmental agreement. Further details about a euro area treasury and fiscal capacity might be outlined in the Commission’s White Paper on the future of Europe (and the EMU) due in March 2017.

The ECOFIN Council also held informal discussions in Bratislava in September 2016 about the introduction of a fiscal pillar whose aim ‘should be to ensure responsible fiscal and structural policies at the national level and to create a fiscal instrument to absorb macroeconomic shocks at the central level’. Reportedly, such a fund would increase overall stability and reduce the ‘pressure on the central bank to engage in non-conventional monetary policy’. The Commission’s representative cautioned that ‘it may not be the time to launch new instruments’, and stressed the need for ‘further reflection’.

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STRONGER FOCUS ON EMPLOYMENT AND SOCIAL PERFORMANCE

In its resolution of 20 November 2012 with recommendations to the Commission on the report of the four Presidents ‘Towards a genuine EMU’, the Parliament requested that the four building blocks of the EMU should be complemented by a Social Pact with adequate social benchmarks. The establishment of this Pact should promote: youth employment, including initiatives such as a European youth guarantee; high-quality and appropriate financing of public services; decent living wages; access to affordable and social housing; a social protection floor to guarantee universal access to essential health services regardless of income; the implementation of a social protocol to protect fundamental social and labour rights; European standards to manage restructuring in a social and responsible way; a new health and safety strategy, including for stress-related diseases; and equal pay and equal rights for work of equal value for all.

The Commission took several non legislative initiatives providing a stronger focus on employment and social performance and addressing to some extent some of the European Parliament’s demands contained in the Thyssen report and the Troika report.

As part of the streamlining process of the European Semester, the Commission decided to put further emphasis on social and employment issues. In the 2015 Country Reports, those issues were analysed in greater detail and taken into account in the 2015 set of country-specific recommendations (CSRs). In a similar vein, further involvement of social partners throughout the European Semester has been initiated, including in the drafting of the National Reform Programmes and further dialogue with the Commission.

The European Parliament also called on the Commission to ‘carry out social impact assessments prior to imposing major reforms in
the programme countries and to consider the spill-over effects of these measures’. In response and in line with President Juncker’s political guidelines, the Commission prepared a social impact assessment within the framework of a new macroeconomic adjustment programme agreed between Greece and its creditors in August 2015. Nonetheless, the European Parliament would like ‘major structural reforms advocated by the CSRs to be accompanied by social impact assessment regarding their short-term, medium-term and long-term effects’ on employment and economic growth.

In November 2015, the Commission decided to add three indicators relating to labour market adjustment issues to the MIP scoreboard, namely the activity rate, the long-term unemployment rate and the youth unemployment rate. It is an important tool as it helps the Commission identify and monitor countries experiencing internal or external imbalances. The Parliament welcomed that initiative but urged that ‘these indicators be put on a genuinely equal footing with the existing indicators, allowing them to trigger in-depth analyses in the relevant Member States and guarantee that their internal imbalances are further assessed, with economic and social reforms being proposed and monitored’. It goes further by proposing the introduction of ‘social imbalances procedure in the design of the CSRs so as to prevent a race to the bottom in terms of social standards’. However, the ECOFIN Council expressed ‘concerns about the inclusion by the Commission of three additional employment indicators to the main scoreboard given the need to preserve the effectiveness of the scoreboard as an early warning device and the nature of the MIP as a procedure established to focus on the identification, prevention and correction of macroeconomic imbalances’.

In addition, several other steps to boost employment across the EU have also been taken since mid-2014. Most notably, it includes the adoption of an additional initial pre-financing amount paid to operational programmes supported by the Youth Employment Initiative and other initiatives such as a Council recommendation on the integration of the long-term unemployed into the labour market. More substantial packages were also tabled, namely the new skills agenda and the new start on work-life balance for working parents. Finally, recent proposals on the posting of workers, on accessibility, on health and safety at work also contribute to this objective.

Last but not least, the Commission presented on 8 March 2016 a first and preliminary outline of a European Pillar of Social Rights within the EMU. This also follows up on the Parliament’s resolution of 25 February 2016 which specifically called on the Commission ‘to present, as soon as possible, a proposal for establishing a Pillar on the social rights capable of ensuring a level playing field across the EU, as part of the efforts towards a fair and truly pan-European labour market as well as being a means to foster upward economic and social convergence in order to tackle the economic and social disparities existing within and between Member States’. In its 2017 Work Programme, the Commission plans to table a proposal for a Pillar of Social Rights in the first quarter of 2017.

The aim of the Pillar is to set out a number of essential principles in the fields of employment and social policies in order to support well-functioning and fair labour markets, and welfare systems within the participating Member States that will, ultimately, drive the process of reforms at national level and serve as a compass for renewed convergence between them. The Commission has also launched a public consultation that has been running throughout 2016, the outcome of which is meant to feed into the White Paper on the Future of Europe due in spring 2017 and a more concrete outline of the European Pillar of Social Rights.

The European Parliament Employment Committee has also been preparing several related own-initiative reports, including a report
on ‘A European Pillar of Social Rights’ which addresses the whole Commission initiative with a view to explore the EU social model and to adapt it best to the 21st century. On 8 December 2016, the Committee adopted the latter report (rapporteur: Maria Joao Rodrigues (S&D, PT)), which puts emphasis on the three following points: helping more women and young people on the labour market, taking into account the digital revolution and improving the legislative, governance and financial tools/means at EU level. The report will be voted at the January 2017 plenary sitting so that the Parliament’s proposals feed into the final Commission proposal.

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A crucial first step on the way towards a more genuine EMU was achieved in 2014 with the completion of the legal framework for an integrated Banking Union. In addition to the establishment of a Single Supervisory Mechanism (SSM) for euro area banks, a common resolution mechanism for dealing with bank failures, namely the Single Resolution Mechanism (SRM), was set up. The central authority of the SRM, the Single Resolution Board (SRB), is responsible for a common safety net, namely the Single Resolution Fund (SRF), whose resources are based on *ex ante* contributions from the financial industry and will be drawn on for the resolution of failing credit institutions only after the implementation of the bail-in rules set out in the BRRD. The target level of the SRF to be reached by 2024 amounts to 1% of the covered deposits of all banks in participating Member States, i.e. about €55 billion.

The SRF - established by the SRM Regulation although an intergovernmental agreement between 26 EU Member States regulates its core elements - has been operational since 1 January 2016. As of 30 November 2016, 20 countries (including all 19 current members of the banking union) have ratified the intergovernmental agreement. The transfer to the fund of the 2015 bank contributions (i.e. €10.8 billion) under a directive on bank recovery and resolution was also complete, in line with the agreement.

However, the design of the Single Resolution Fund could be further enhanced. The Five Presidents' report highlights that a credible common fiscal backstop should be set up both during the transition period and in steady state. It also suggests that a direct credit line from the European Stability Mechanism (ESM) to the SRF could be a solution, noting that the backstop should be fiscally neutral in the medium term. *Ex post* contributions from the banking sector would be raised to refund the ESM.

The Council agreed on 8 December 2015 to put in place a system of bridge financing arrangements so that if the SRF’s resources are completely depleted before it reaches the target level of €55 billion, e.g. in the event of widespread bank failures or one big systemic bank failure, additional resources are available to be drawn upon temporarily. As of 2016, most of the participating Member States have enter into a harmonised Loan Facility Agreement with the SRB, providing a national individual credit line to the SRB to back its national compartment in the SRF in case of possible funding shortfalls following resolution cases of banks of the Member State.
concerned. As of 30 November 2016, 15 of the 19 banking union Member States had signed a loan facility agreement on bridge financing for the SRF.

In its 2015 annual report on the Banking Union, the European Parliament stressed ‘the need, as a consequence of the existence of the national compartments in the SRF, to rapidly put in place an adequate bridge financing mechanism in order to provide the fund, if necessary, with sufficient resources in the period before its completion and guarantee the effective separation between banks and sovereigns’. It recalled that ‘the Eurogroup and the ECOFIN ministers identified, in their statement of 18 December 2013, the possibility of having recourse either to national sources, backed by bank levies, or to the European Stability Mechanism’. At the same time, it welcomed ‘the agreement reached to secure public bridge financing to help ensure the availability of funds for concrete resolution action through national resources’. Lastly, the SRF could be integrated into the EU legal framework. MEPs called on the Commission ‘swiftly to take the necessary steps for a quick integration of the intergovernmental agreement into the framework of EU law, as provided for in Article 16 of the Agreement’. The ECON Committee has recently reiterated a similar call in its draft report on the Banking Union 2016 - Annual Report (Rapporteur: Danuta Huebner (EPP, PL)).

An ad hoc working group in the Council was established on 13 January 2016 and has been examining measures to strengthen the Banking Union, including the set-up of a common fiscal backstop to the SRF at the latest by the end of 2023. Following the completion of the transposition of the BRRD by all Member States in early November 2016, the ECOFIN Council decided to ‘give a mandate [to the Economic and Financial Committee] for technical work on the common backstop to start’, in line with its commitment included in the roadmap to complete the Banking Union agreed on 17 June 2016. The Eurogroup also urged the four remaining Banking Union Member States to the loan facility agreement on bridge financing for the SRF.

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JD - AMENDMENTS TO THE SINGLE RESOLUTION MECHANISM REGULATION (SRMR)
- LOSS ABSORBING AND RECAPITALISATION

FINANCIAL UNION
The completion and implementation of the significant overhaul of the financial regulatory framework in response to the financial crisis, including the revision of prudential requirements and the resolution framework for financial institutions and investment firms, remains a major area of the Commission’s work.

On 23 November 2016, the Commission presented its proposal to amend the Single Resolution Mechanism Regulation or SRMR as part of a ‘Banking Reform Package’ (see below). The proposal aims to incorporate international standards on loss-absorbing and recapitalisation. In particular, at the global level, the Financial Stability Board (FSB) has published on 9 November 2015 the Total Loss-absorbing Capacity (TLAC), which was later endorsed by the G20 group. This standard aims to reduce the impact of banking failures on public funds. It applies to all Globally important systemic institutions (GSIIs) worldwide as of January 2019. It applies to all G-SIIs, hence to 13 banks within the EU (out of 30). Since TLAC is not binding, it has to be transposed into national or European legislation. As of 1 January 2019, G-SIIs will have to comply with a minimum TLAC requirement of 16% of RWA and 6% of the Basel III leverage ratio denominator (TLAC Leverage Ratio Exposure (LRE) Minimum).

In parallel, the Commission presented its proposal to amend the Bank Recovery and Resolution Directive (BRRD). While the BRRD is binding for all banks in the EU, the SRMR applies to institutions of euro-area Member States only. This proposal applies to the Single Resolution Board (SRB) and national authorities of the Member States participating in the Single Resolution Mechanism (SRM).

To improve the resolvability of financial institutions, both BRRD and the SRMR include provisions on resolvability assessments and resolution plans. In order to ensure that banks maintain an adequate loss-absorbing capacity: the amount of capital needed to absorb losses (loss absorption amount) and, where necessary, to recapitalise a firm after resolution (resolution amount), they use an own standard, the MREL (‘Minimum requirement for own funds and eligible liabilities’ (Art. 45 BRRD), Art. 12 SRMR).

While the general rules on the TLAC minimum requirement for G-SIIs are part of the review of the Capital Requirements Regulation (CRR (EU) No 575/2013), this proposal deals with the institution specific add-on for G-SIIs and the general requirements applicable to banks established in the Banking Union. The proposed amendment aims to align the international TLAC requirement with the existing MREL standard by avoiding duplication by applying two parallel requirements and introduces a number of targeted amendments to the existing SRMR: It changes the MREL’ requirement for banks and GSIs under the scope of the Single Resolution Board (SRB) (taking over TLAC, new Art. 12 a-j) from being measured as a percentage of the total liabilities of the institution into percentage of the total risk exposure amount and of the leverage ratio exposure measure of the relevant institution (see above). The amendments also introduce an internal MREL requirement (Art 12g and 12h) which, in line with the TLAC standard, allows to recapitalise a resolution group entity (with critical functions) without placing it into formal resolution.

The European Parliament addressed the topic of MREL in its annual report on the banking union 2015, published in March 2016. The report ‘calls for timely progress to be made in drawing up resolution plans and setting a minimum requirement for own funds and eligible liabilities (MREL) for institutions falling within the scope of the Single Resolution Mechanism. The draft report of the annual
report for 2016 stresses, ‘that both standards share the same objective; concludes therefore that a holistic approach to loss-absorption can be reached by combining the two; highlights that due consideration should be given to retaining the two criteria of size and risk-weighted assets’.

Gunnar Hökmark (EPP, Sweden) has been named rapporteur as well as for the dossier amending the Bank Recovery and Resolution Directive (2016/0362(COD), see train 4C).

‘Banking reform package’: The proposed amendments to the Single Resolution Mechanism Regulation (SRMR (EU) No 806/2014) are part of the Commission’s legislative package that includes also amendments to Regulation (EU) No 575/2013 (the Capital Requirements Regulation or CRR), to Directive 2013/36/EU (the Capital Requirements Directive or CRD), and the Directive 2014/59/EU (the Bank Recovery and Resolution Directive or BRRD). For detailed information on financial services see train 4C.

While reiterating the importance of completing the Banking Union in terms of risk sharing and risk reduction, ‘in the appropriate order’, the European Council called on ‘the Council to rapidly examine the recent Commission proposals to increase resilience in the financial sector’ at its December 2016 meeting.

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CONTENT

As part of the November 2015 European Semester package, the European Commission proposed a regulation establishing the Structural Reform Support Programme (SRSP) 2017-2020. Structural reforms were identified as one of the priority areas in the Annual Growth Survey for 2016, which launched the annual cycle of EU economic policy coordination. The programme aims to improve the administrative and institutional capacity of Member States, in order to facilitate better implementation of EU law, in particular the country-specific recommendations issued under the European Semester, more efficient use of EU funds and the introduction of growth-enhancing structural reforms. The proposal draws on positive experiences with technical assistance in connection with reforms in Greece and Cyprus and aims to make the expertise gathered available to all Member States. The proposed budget is €142.8 million, to be deducted from existing technical assistance resources under the European Structural and Investment Funds (ESI Funds). This requires the amendment of Regulation (EU) No 1303/2013 establishing the common provisions for all the ESI Funds – the Common Provisions Regulation (CPR) – and Regulation (EU) No 1305/2013 on the European Agricultural Fund for Rural Development (EAFRD).

In the Council, the proposal has been examined by the Working Party of Financial Counsellors. The Committee of Permanent Representatives (Coreper) agreed the negotiating stance on behalf of the Council on 28 April 2016. There was a broad support for the Presidency compromise text which proposed strengthening the position of Member States in requesting, implementing and monitoring of the support. It also stressed that the deduction of resources from ESI Funds shall be exceptional and without prejudice to any future proposal.

The European Parliament’s co-rapporteurs from the Committee on Regional Development published their draft report on 14 July 2016, proposing 58 amendments to the Commission proposal. The draft report highlighted that support from the SRSP should be used in particular for the efficient use of ESI Funds and that economic, social and territorial cohesion should be included among the specific objectives of the programme. The amendments called for exploring other sources of funding in order to avoid making the deduction from ESI Funds a precedent for the future. The need for transparency was also stressed, by keeping the EP fully informed at different stages of the procedure. The EP’s Committee on Regional Development voted on the report on 29 November 2016, paving the way for the start of the trialogue negotiations in early 2017.

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**Further reading:**


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The Council highlighted in its conclusions of November 2012 "the importance for the credibility of the MIP of having timely statistics of the highest quality for inclusion in the scoreboard and stressed the need for the Commission (Eurostat) to pursue all necessary initiatives to assure a reliable procedure for the completion of these statistics as well as a continuous improvement of the underlying statistical information".

In June 2013, the Commission proposed a Regulation for compiling, monitoring and reporting statistics for the Macroeconomic Imbalance Procedure (MIP). The aim is to ensure that the data used for the MIP is comparable, reliable and of the highest quality, so that Member States’ macroeconomic imbalances can be efficiently identified and addressed at an early stage. Eurostat would be responsible for monitoring that the quality requirements are met on the statistics submitted by Member States, as well as for communicating this data. The approach set out in the draft Regulation is largely modelled on the well-functioning statistical procedures already used for Excessive Deficit Procedure.

The European Parliament adopted its position in the form of a mandate for negotiations with the Council on 11 March 2014. The main amendments compared to the Commission proposal are about the quality of data, the quality assurance procedures, the transmission of data to the Commission (including a cut-off date for the extraction by the Commission), establishment of dialogue mission to Member States, sanctions (i.e. two-stage procedure for the Council to decide on the basis of a Commission recommendation), and the role of Parliament, i.e. the Commission shall inform the competent Committee of the European Parliament of any investigation or recommendation made pursuant to this regulation. The competent committee of the European Parliament may offer a Member State which is the subject of a Commission recommendation an opportunity to participate in an exchange of views. Lastly, Parliament would like the Commission to report at least annually on the activities carried out for the purpose of implementing the Regulation.
However, the proposal has been on hold in the Council Working Party since 2014, as the legal basis of the Commission’s proposal (i.e. Article 338 of the TFEU) excludes ECB statistics, whereas most of the MIP scoreboard indicators are produced by the ECB.

Nevertheless, in the production of the 2015 Alert Mechanism Report – a Commission annual report that marks the kick-off of the MIP yearly cycle – Eurostat notes that the quality of underlined statistics was significantly improved due to changes in the methodological standards that affected the data coming from National Accounts and Balance of Payments domains. Notably, in September 2014, the a new methodological framework, the European System of National and Regional Accounts 2010 (ESA 2010) replaced the outdated ESA 1995, so that the substantial changes that have impacted the economies during the last 20 years, are appropriately affected. In addition, changes occurred due to the introduction of the Sixth Edition of the IMF’s Balance of Payments and International Investment Position Manual (BPM6). Overall, ten MIP Scoreboard indicators (all expect the unemployment rate) were affected by the methodological amendments.

References:

- Council, Conclusions on EU statistics, 2012
- European Commission, Proposal for a Regulation on the provision and quality of statistics for the macroeconomic imbalances procedure, 2013/0181(COD)
- Eurostat, European System of National and Regional Accounts 2010 (ESA 2010), website
- International Monetary Fund, Sixth Edition of the IMF’s Balance of Payments and International Investment Position Manual (BPM6), 2013
- EP Legislative Observatory, Procedure file of Regulation on the provision and quality of statistics for the macroeconomic imbalances procedure, 2013/0181(COD)

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The Single Supervisory Mechanism (SSM) is the first pillar of Banking Union and has been operational since 4 November 2014. The SSM consists of the European Central Bank (ECB) – as an overarching authority – and the national banking supervisors (i.e. National Competent Authorities or NCAs) of participating EU Member States. The aim is to safeguard EU financial stability and to ensure the safety, as well as soundness of financial institutions and ‘a level playing field in the supervisory requirements to be met by banks’.

The ECB directly supervises about 120 significant banks in the euro area, while the NCAs are responsible for the remaining 3,500 less significant banks. Nonetheless, the ECB, i.e. the overarching authority, can take over direct supervision of any bank at any moment.

All euro area Member States participate in the Banking Union and thus in the SSM. It is possible for other EU Member States to decide to opt into the SSM in the future, and therefore ‘close cooperation’ between the ECB and their NCA is required. If so, a Memorandum of Understanding is concluded between the ECB and the relevant national supervisor. This, in turn, also means that all participating Member States’ banks are covered by the Single Resolution Mechanism.
Importantly, clear rules govern the organisational and operational separation of the ECB roles in the area of supervision on the one hand, and of monetary policy on the other hand.

The European Parliament also pushed through the following key areas during the negotiations:

- stronger accountability of the supervisor, including through the appointment (jointly with the Council) and dismissal of the Chair and Vice Chair of the supervisory board;
- stronger role for national parliaments;
- better access to information for the European Parliament and national parliaments vis-à-vis supervisory authority and also for the supervisor vis-à-vis participating banks;
- ability to launch investigations into possible mistakes by the supervisors;
- ability for individual MEPs to question the supervisor in writing and receive a quick reply;
- attractive participation conditions for non-euro area countries (see above);
- strict division of ECB staff between monetary policy and supervision so as to ensure that the supervisory arm of the ECB is truly accountable;
- strengthening the European Banking Authority, in relation to the ECB, and also improving its ability to undertake stress tests and obtain information; and
- establishing a more uniform culture of bank supervision at the same time as upholding the diversity of the EU banking sector.

The legal framework for the SSM required the adoption of the two pieces of legislation:

1. The Council Regulation conferring specific tasks on the ECB of 15 October 2013 concerning policies relating to the prudential supervision of credit institutions, and
2. A Regulation establishing a European Supervisory Authority as regards the conferral of specific tasks on the ECB of 22 October 2013.

Both legal texts were published in the Official Journal on 29 October 2013.

In addition, the ECB in its supervisory role is accountable to the European Parliament and to the Council, in line with the Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions and an Inter-Institutional Agreement.

The Commission is expected to finalise the first review of the SSM regulation in spring 2017.

References:

• Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
  • Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism, 2013/694/EU

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HYPERLINK REFERENCES

• http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013Q1130(01)
• mailto:legislative-train@europarl.europa.eu

SINGLE RESOLUTION MECHANISM

> FINANCIAL UNION

CONTENT

The second element of the Banking Union, complementing the Single Supervisory Mechanism (SSM), is the Single Resolution Mechanism (SRM), together with the Single Resolution Fund (SRF), which was adopted in accordance with the ordinary legislative...
procedure. The SRM aims to manage swiftly and orderly resolution of failing banks in the euro area and other participating Member States.

It contributes to breaking the link between banks and sovereigns. A single system is expected to deal with cross-border banks in an unbiased way in order to curtail spill-over effects and contagion across the single currency area. The primary aim also remains to spare taxpayer contribution.

The SRM consists of a central authority, the Single Resolution Board (SRB), and a network of national resolution authorities from all Member States participating in the Banking Union. The SRB is directly in charge of preparing and overseeing the resolution of the most significant financial institutions, while national resolution authorities are responsible for all other banks, as per the SSM framework. In addition, national resolution authorities assist the SRB with resolution preparation, and implement resolution decisions. In turn, the SRB monitors the proper implementation of those measures. Importantly, the resolution rules set by the Bank Recovery and Resolution Directive (BRRD) must be applied to all participating Member State banks.

In addition, a SRF was established by the SRM Regulation. However, an intergovernmental agreement between 26 EU Member States regulates the core elements of the SRF, namely: (i) transfers of the contributions levied by national resolution authorities to the national compartments of the SRF; (ii) mutualisation of the national compartments’ funds over a transition period of eight years; (iii) lending between national compartments and (iv) the potential contribution of non-euro area participating Member States to the SRF. The inclusion of this intergovernmental process was harshly criticized by the European Parliament.

The Single Resolution Board is responsible for the SRF. The Fund’s resources are based on ex ante contributions from the financial industry and will be drawn on for the resolution of failing banks only after the implementation of the bail-in rules set out in the BRRD. The target level of the SRF, to be reached by 2024, amounts to 1% of the covered deposits of all banks in participating Member States, i.e. about 55 billion euro.

In the event of the Fund running out of money, extraordinary ex post contributions could be raised from banks. In January 2015, a Council Implementing Regulation calculating the contributions to be paid by banks to the SRF was adopted (to be progressively mutualised over a ten-year transition period).

The European Parliament pushed through the following key issues during the trialogue negotiations:

- the ECB supervisor triggers the whole process, being responsible for deciding whether a bank is on the brink of failing, although the SRB may ask that the ECB takes such a decisions and if the ECB declines to do so, then the Board itself may take the decision,
- the decision-making process is quicker and streamlined so that a decision on a resolution scheme may effectively be taken within a weekend,
- the Council may be involved only at the Commission’s express request and only to assess the public interest criterion or to approve a larger or lower use of the Fund proposed by the Commission, thereby avoiding political interference in individual resolution
cases,

- the borrowing capacity of the Fund was enhanced, which was deemed crucial by the MEPs in the first years when the fund would only have a small capitalisation,

- the period both for the mutualisation and the pay-in to the Fund was shortened from 10 to 8 years, with a non-linear mutualisation starting with 40% the first year and 20% the second year, at the European Parliament’s insistence.

The Regulation of 15 July 2014 establishing a SRM entered into force on 19 August 2014 and will implement the rules set for all 28 Member States by the BRRD to the SSM countries. Following the end of the ratification process of the intergovernmental agreement on the transfer and mutualisation of contributions to the SRF, the SRM became fully operational on 1 January 2016.

In late November 2016, the European Commission submitted a package of banking reforms including a review of the SRM Regulation (see carriage in Departures).

References:

- Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms
- Council Agreement on the transfer and mutualisation of contributions to the Single Resolution fund, 2014
- European Commission, ‘Single Resolution Mechanism to come into effect for the Banking Union’, Press release, IP/15/6397

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The overall institutional framework of fiscal and economic policy coordination was reformed in the wake of the European sovereign debt crisis through a series of reforms, including the ‘Six-Pack’, the ‘Two-Pack’, the Treaty on Stability, Coordination and Governance and the Euro Plus Pact. The new economic governance seeks to foster competitiveness while ensuring further fiscal sustainability and improving the surveillance of macroeconomic imbalances. In this respect, the implementation of structural reforms by Member States is also key.

In line with the short-term proposals made in Five Presidents’ Report, the Commission tabled on 21 October 2015 a Recommendation for a Council Recommendation on the establishment of National Competitiveness Boards within the euro area. According to the Commission, the aim of the Boards would be to monitor competitiveness developments in the Member States concerned, but also to provide policymakers and relevant economic actors with information to be considered within existing processes at national level, including for example collective wage bargaining, within the framework of the European Semester and the Macroeconomic Imbalances Procedure. The independent advice should take into account national specificities and established practices, as well as the broader euro area and EU dimension, and in particular provide advice on how to implement the Country-Specific Recommendations. The role of the Commission would be to facilitate the coordination of this network of National Competitiveness Boards and ‘exchange views with them in order promote the consideration of the euro area and EU objectives in the work of those Boards’.

The Commission remains ready, if need be after mid-2017, to ‘present common principles by means of a binding instrument’.

Following the endorsement by the European Council in late June 2016, the Council issued a recommendation calling on the euro area
member states to set up national productivity boards on 20 September 2016, responsible for:

- diagnosis and analysis of productivity and competitiveness developments;
- independent analysis of policy challenges in this field.

Note that the tasks of the Boards outlined in the recommendation adopted by the Council altered the initial Commission proposal.

In addition, the recommendation encourages other EU Member States to establish similar authorities. It also calls for productivity boards to engage in dialogue and the exchange of best practices, and where appropriate produce joint analyses.

Euro area Member States should implement the recommendation and the Commission should prepare a progress report by March 2018 and March 2019, respectively.

The European Parliament, in its resolution of 17 December 2015 on completing Europe's EMU, regretted ‘that the Commission chose not to use the ordinary legislative procedure for the decisions regarding National Competitiveness Boards, and called on the Commission to make a legislative proposal to that effect’.

The European Central Bank also acknowledged that the establishment of the National Competitiveness Boards ‘could provide new impetus to the implementation of structural reforms’ in the euro area member states but that ‘an appropriate setup will be essential’ at national and euro area levels.

References:

- Council, *Outcome* of the ECOFIN Council meeting of 17 June 2016, 10324/16
- European Council, *Conclusions* of 28 June 2016, EU CO 26/16

Further reading:
In the wake of the European sovereign debt crisis, a comprehensive set of reforms was undertaken in order to address the flaws in the initial EMU design and to strengthen the enforcement of fiscal rules. The biggest change however concerned macroeconomic imbalances, which had been identified as a major cause for the fragility the economy in several Member States, and were the cause for major negative spill-over effects to other countries. As a result, the economic governance framework was substantially reinforced with the introduction of tools destined to identify and correct macroeconomic imbalances.

The Macroeconomic Imbalances Procedure (MIP), introduced with the ‘Six Pack’ adopted in 2011, constitutes an essential pillar of the new economic governance framework. The aim of the MIP is to prevent and correct macroeconomic imbalances in Member States, with special emphasis on those macroeconomic imbalances with potential spill-over effects on other Member States.

An Alert Mechanism Report (AMR), which warns about macroeconomic imbalances, is published by the Commission on a yearly basis.
at the beginning of the European Semester. The MIP starts with the establishment of a scoreboard of eleven relevant indicators (to which three neutralised indicators were since added). Each indicator is associated with thresholds, which, if trespassed, may trigger an in-depth analysis (IDA) of the country concerned. The thresholds, which are arbitrarily set by the Commission, do not constitute legal limits similar to the deficit rules, but are merely used to help trigger an IDA. Also, it is stipulated that the mere crossing of thresholds need not necessarily imply that macroeconomic imbalances are emerging. It is only after an in-depth analysis was carried out, that the Commission will decide if macroeconomic imbalances exist in the country under review. The findings are summarised in the alert mechanism report (ARM).

The Commission may propose to the Council to adopt a preventive recommendation to a country in which macroeconomic imbalances were identified. These recommendations will be included in the European Semester’s Country Specific Recommendations (CSR). In the event that excessive imbalances are detected in a Member State, the Excessive Imbalance Procedure (EIP) can be triggered. The Member State would have to take corrective action to address the identified imbalances. To this end the country concerned would have to submit a Corrective Action Plan (CAP), which, once agreed upon at Council level, may lead to fines in case of non-compliance with that plan. Financial sanctions may only be imposed on euro-area Member States.

In line with the Five Presidents’ Report and the communication on ‘Steps towards the completing EMU’, the Commission has reinforced the implementation of the MIP while acknowledging that it must be used to its full potential. The euro-area dimension of the MIP has also been better taken into account. Indeed, in the 2016 AMR and 2016 country reports, the implications of imbalances experienced in individual countries on the euro area and the EU were analysed in depth. The Commission also examined ‘how such implications require a coordinated approach to policy responses’. In addition, it has increased the transparency of the MIP through a clearer presentation and better description of the findings contained in the in-depth reviews. The macroeconomic imbalance categories have also been streamlined from the existing six to four (‘No imbalances’, ‘Imbalances’, ‘Excessive imbalances’ and ‘Excessive imbalances with Corrective Action Plan (EIP)’), in order to ensure more effective and simpler communication and to stabilise the categorisation of macroeconomic imbalances. At this stage, the EIP has never led to a fine.

It is the Commission’s right to modify the set of indicators at its own discretion. Three indicators relating to labour market adjustment issues were included in the scoreboard, namely the activity rate, the long-term unemployment rate and the youth unemployment rate, thus bringing the number of indicators to 14. These three indicators are not totally new, as they were previously part of a set of secondary indicators, and they have not been given the same status as the 11 original indicators. Rather they have been ‘neutralised’, i.e. trespassing their thresholds will not trigger an IDA.

The European Central Bank had insisted in 2015 that ‘it is important to make full and effective use of the instruments of the MIP, including its corrective arm, in order to reduce the potential risks to smooth functioning of the EMU’.

The Ecofin Council shared the ECB position and also expressed ‘concerns about the inclusion by the Commission of three additional employment indicators to the main scoreboard given the need to preserve the effectiveness of the scoreboard as an early warning device and the nature of the MIP as a procedure established to focus on the identification, prevention and correction of
macroeconomic imbalances'.

Although the Parliament welcomed the inclusion of the new indicators, it urged that ‘these indicators be put on a genuinely equal footing with the existing indicators, allowing them to trigger in-depth analyses in the relevant Member States and guarantee that their internal imbalances are further assessed, with economic and social reforms being proposed and monitored’.

In its resolution on the review of the economic governance framework: stocktaking and challenges adopted on 24 June 2015, the European Parliament underlined that:

- ‘The MIP is meant to avoid crises happening through the early identification of harmful macro-economic imbalances on the basis of an objective assessment of the development of the key macroeconomic variables;
- The MIP must be used to assess in an efficient and effective manner the development of key macroeconomic variables in both deficit and surplus countries, particularly with regard to strengthening competitiveness and better taking into account the euro area as a whole, including spill-over effects;

Macroeconomic surveillance is also aimed at identifying countries that are likely to experience a future imbalance and to avoid it through the timely launching of sustainable and socially balanced structural reforms, when room for action is still available’.

References:

- Regulation (EU) No 1174/2011 of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area
- European Commission, Communication from the Commission on steps towards Completing Economic and Monetary Union, COM(2015)600
- Council, Conclusions on Alert Mechanism Report 2016

Further information:
• European Commission, *Macroeconomic Imbalance Procedure*, website
• European Commission, *MIP scoreboard*, website

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**HYPERLINK REFERENCES**

FISCAL UNION

CONTENT

The overall institutional framework of fiscal and economic policy coordination was reformed in the wake of the European sovereign debt crisis through a series of reforms, including the ‘Six-Pack’, the ‘Two-Pack’, the Treaty on Stability, Coordination and Governance. The new economic governance seeks to ensure further fiscal sustainability and improve the surveillance of macroeconomic imbalances.

In line with the short-term proposals made in Five Presidents’ Report, the Commission tabled on 21 October 2015 a Decision establishing an independent advisory European Fiscal Board (EFB). The EFB was established on 1 November 2015 and has become operational following the formal appointment of its Members by the College of Commissioners on 19 October 2016. The aim is to contribute in an advisory capacity in the exercise of the Commission’s functions in the multilateral fiscal surveillance, that is to provide a public and independent assessment, at European level, of how budgets – and their execution – perform against the economic objectives and recommendations set out in the EU fiscal framework.

As regards transparency, the EFB ought to publish an annual report regarding its activities, which shall include summaries of its advice and evaluations provided to the Commission.

The European Parliament, in its resolution of 17 December 2015 on completing Europe’s EMU, only stressed that “the European Fiscal Board, as the advisory board of the Commission, should be accountable to Parliament” and that, “in this context, its assessment should be public and transparent”.

Prior to this, the European Central Bank acknowledged that the establishment of an EFB is ‘a step in the right direction’ but also regretted that the EFB was not given the right to “provide and publish assessments of the Commission’s Stability and Growth Pact-related decisions in real time”, nor the right to “make submissions in the European Parliament and at the relevant Council/Eurogroup meetings”.

References:

- Juncker, J-C., Five Presidents’ Report on Strengthening Europe’s EMU, 2015
- European Parliament, Resolution of 17 December 2015 on completing Europe’s Economic and Monetary Union, 2015/2936(RSP)

Further reading:
A crucial first step on the way towards a more genuine EMU was achieved in 2014 with the completion of the legal framework for an integrated Banking Union. In addition to the establishment of a Single Supervisory Mechanism (SSM) for euro area banks – consisting of the European Central Bank as the overarching authority, alongside national banking supervisors of participating Member States – a common resolution mechanism for dealing with bank failures, namely the Single Resolution Mechanism (SRM), was set up. In practice, the central authority of the SRM, the Single Resolution Board (SRB), prepares and oversees the resolution of failing banks, in close cooperation with the national resolution authorities. It is responsible for a common safety net, namely the Single Resolution Fund (SRF).

The SRF was established by the SRM Regulation adopted in 2014 by the ordinary legislative procedure. However, an intergovernmental agreement between 26 EU Member States regulates the core elements of the SRF, in particular: (i) transfers of the contributions levied by national resolution authorities to the national compartments of the SRF; (ii) mutualisation of the national compartments’ funds over a transition period of eight years; (iii) lending between national compartments and (iv) the potential contribution of non-euro area participating Member States to the SRF.
The Fund’s resources are based on \textit{ex ante} contributions from the financial industry and will be drawn on for the resolution of failing credit institutions only after the implementation of the bail-in rules set out in the BRRD. The target level of the SRF to be reached by 2024 amounts to 1\% of the covered deposits of all banks in participating Member States, i.e. about €55 billion. In the event of the Fund running out of money, extraordinary \textit{ex post} contributions could be raised from banks.

The European Parliament pushed through the following key issues during the SRM trialogue negotiations:

- the borrowing capacity of the Fund will be enhanced, which was deemed crucial by the MEPs in the first years when the fund would only have a small capitalisation,
- the period both for the mutualisation and the pay-in to the Fund was shortened from 10 to 8 years, with a non-linear mutualisation starting with 40\% the first year and 20\% the second year, at the European Parliament’s insistence.

The SRF has been operational since 1 January 2016 and the transfer to the SRF of 2015 bank contributions (i.e. €10.8 billion) under a directive on bank recovery and resolution was complete. As of 30 November 2016, 20 countries (including all 19 current members of the banking union) have ratified the intergovernmental agreement.

In its 2015 annual report on the banking union, the Parliament called on the Commission ‘swiftly to take the necessary steps for a quick integration of the intergovernmental agreement into the framework of EU law, as provided for in Article 16 of the Agreement’.

References:

- Council, \textit{Agreement} on the transfer and mutualisation of contributions to the Single Resolution fund, 2014
- Council, ‘\textit{Statement on Banking Union and bridge financing arrangements for the Single Resolution Fund}’, Press release 884/15
- Juncker, J.-C., Five Presidents’ \textit{Report on strengthening Europe’s EMU}, 2015
- Council, \textit{Conclusions} on a roadmap to complete the Banking Union, 2016

Further information:
EUROPEAN SEMESTER IMPROVEMENT

> ECONOMIC UNION

CONTENT

The European Semester, which was institutionalised by the 'six-pack' legislation in 2011 (Regulation 1175/2011), is a yearly cycle, which aims at coordinating and monitoring the economic and employment policies of EU Member States. As part of this process, the Commission analyses the fiscal and structural reform policies and provides recommendations accordingly. In response, the Member States commit to implementing the commonly agreed policies.

In practice, the European Semester begins with the publication of the Annual Growth Survey (AGS) and Alert Mechanism Report.
(AMR) by the Commission in November. In April, Member States submit their Stability or Convergence Programmes and National Reform Programmes, which are, in turn, assessed by the Commission. Then the Commission proposes Country-Specific Recommendations (CSRs), which are subsequently endorsed by the European Council and adopted thereafter by the Ecofin Council.

Against the backdrop of the ’Six-Pack’ and ’Twoo-Pack’ reviews, the Commission decided to start overhauling the functioning of the European Semester in 2015. The Commission’s output has been indeed simplified: in late February, it releases Country Reports, which analyse economic policies of EU Member States and the euro area as a whole. They simultaneously include an evaluation of progress made by Member States in addressing last year’s CSRs and in-depth reviews for all EU Member States identified in the AMR and assessing potential internal and/or external (excessive) imbalances, in accordance with the Macroeconomic Imbalance Procedure.

Compared to the previous Semesters, those country-specific documents are published three months earlier than the usual Staff Working Documents, which used to be released together with the new set of CSRs. The Commission argues it has strengthened and intensified the involvement of national Parliaments, social partners and all key stakeholders and reinforced communication and ownership role at national level.

In addition, the set of CSRs has also been streamlined: there are fewer and more targeted recommendations for each Member State while their focus is further in line with the priorities set out in the AGS. On average, Member States received about 4 CSRs in 2015 and 3.3 in 2016 compared to 6 between 2012 and 2014.

The European Commission has also taken extra steps towards the revamping of the Semester in line with the Five Presidents’ report. It has engaged further with the European Parliament within the framework of the 2016 and 2017 European Semesters. In this regard, the plenary debate took place in November 2015 and 2016, in which Commission Vice-President Dombrovskis discussed the key economic priorities for the EU ahead of the adoption of the 2016 and 2017 Annual Growth Surveys, respectively. Similarly, an exchange of views with the Commission and Eurogroup Presidents took place in the plenary session of 15 December 2015 to discuss the draft euro area recommendations proposed by the Commission (alongside the 2016 AGS) in late November (instead of May in the previous exercises) so as to put further emphasis on the euro area dimension.

In a resolution on the European Semester and the implementation of the 2016 priorities adopted in late October 2016, the European Parliament welcomed the Commission’s ‘approach of streamlining the Semester process focusing on a limited set of recommendations in line with the priorities of macroeconomic and social relevance. It also ‘fully supports the efforts made to ensure greater national ownership in the formulation and implementation of CSRs as an ongoing reform process’. Those adjustments are also broadly in line with the recommendation put forward by the European Parliament in its resolution on the review of the economic governance framework: stocktaking and challenges adopted on 24 June 2015. Indeed, the European Parliament insisted ‘that the Annual Growth Survey (AGS) as well as the country-specific recommendations (CSR) must be better implemented and take into account the assessment of the budgetary situation and prospects both in the euro area as a whole and in the individual Member States’ and suggested ‘that this overall assessment foreseen in Regulation (EU) No 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area should be submitted to a
plenary debate of the European Parliament with the Council, the President of the Eurogroup and the Commission prior to the Spring Council and properly implemented throughout the European Semester’. In addition, the Parliament believed that ‘the European Semester should be streamlined and reinforced, without modifying the current legal framework, and that Semester-related documents should be better coordinated, thus increasing focus, effectiveness and ownership to achieve the European goals of good economic governance’.

References:

• Regulation (EU) No 1175/2011 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies
• European Commission, Communication on the Annual Growth Survey 2015, COM(2014)902
• European Commission, Semester 2015 website

• European Parliament, Euro area recommendation - Completing Europe’s Economic and Monetary Union, Plenary debate, 15 December 2015
• European Parliament, Committee on Economic and Monetary Affairs draft own initiative report on European Semester for economic policy coordination: implementation of 2016 priorities, 2016/2101(INI)
• European Parliament, Resolution of 26 October 2016 on the European Semester for economic policy coordination: implementation of 2016 priorities, 2016/2101(INI)

Further reading:

In the wake of the European sovereign debt crisis, the overall institutional framework of economic and fiscal governance went through a series of reforms including the ‘Six-Pack’ and the ‘Two-Pack’. Those reforms were designed to enhance budgetary surveillance and economic coordination given the high level of interdependence in the euro area, as revealed during the crisis.

The Regulations and Directive that form the ‘Six-Pack’ were introduced in 2011 with the ambition of correcting macroeconomic imbalances which had accumulated within some Member States over a long period, avoiding the emergence of new imbalances, and ensuring the sustainability of national public finances through preventive and where necessary corrective actions. The rules apply to all Member States, although some (mainly those relating to sanctions) apply only to the euro area. The new rules:
• bring the surveillance of fiscal and economic policies under the European Semester, to ensure that the policy advice given to Member States is consistent;

• introduce an expenditure benchmark, linked to a country's medium-term budgetary objective, that places a cap on the annual growth of a country's expenditure;

• allow the excessive deficit procedure to be opened on the sole basis of the debt criterion (60% of GDP);

• introduce a macroeconomic imbalance procedure relying on an early-warning system and enforcement regime, allowing the Council to insert preventive aspects in the country-specific recommendations well before a Member State's imbalances become dangerously large, or if this fails, to open an excessive imbalance procedure and oblige it to follow a corrective action plan;

• enhance country surveillance, through assessing not only countries with current account deficits, but also checking if Member States with a high and persistent current account surplus might be experiencing macroeconomic imbalances; impose graduated financial sanctions, which may eventually reach 0.5% of GDP.

The Regulations of the ‘Two-Pack’ were introduced in 2013. They are based on, and enhance, the ‘Six-Pack’ reforms, by improving budgetary coordination through the introduction of a common budgetary timeline and common budgetary rules for euro area Member States, and by introducing a system of enhanced surveillance for those euro area Member States experiencing (or threatened to experience) serious difficulties with financial stability, receiving financial assistance, or emerging from adjustment programmes.

On 28 November 2014, the Commission adopted a Communication presenting its review of the Regulations in the ‘Six-Pack’ and ‘Two-Pack’. Although the Commission expressed its general satisfaction with the way the Regulations helped the EU weather the economic crisis, it noted that, at this stage, the review could not be comprehensive because the time since the entry into force of the rules was short and a number of provisions had not been put to the test. In addition, the Commission highlighted that the effectiveness of the Regulations needed to be further tested, as until then, they had been applied only under strained economic conditions, whereas the preventive arm of the packs also needed to be tested under normal conditions.

Beyond that, the Commission has also been reflecting on improving the clarity and reducing the complexity of the EU fiscal framework. In January 2015, a Communication on the flexibility that can be applied within the existing rules on the application of the SGP was released in order to better take into account the implementation of structural reforms, public investment and adverse economic conditions. In a Communication on steps towards completing the EMU published in October 2015, it has announced to take further steps such as updating its ‘Vade Mecum on the Stability and Growth Pact (SGP)’ on a yearly basis; presenting an update of the full set of external economic assumptions in September for the national draft budgetary plans; increasing consistency in the methodology between the debt brake rule and the EDP; streamlining the methodology for assessing compliance with the SGP through increasing reliance on a single practical indicator; and the possibility of updating multi-year Council recommendations to reduce excessive deficits in order to take into account unforeseen developments in the economic environment. More recently, the Commission President announced a new ‘stability-oriented review of the Stability and Growth Pact’ in his 2016 State of the Union speech, which should be included in the White Paper on the future of Europe (including the EMU) due in March 2017.

Following the reflection work undertaken by the Dutch and Slovak Presidencies, the ECOFIN Council endorsed an agreement reached
by the Economic and Financial Committee, which aims to improve the functioning of the EU fiscal framework including the predictability and transparency of the SGP. Assessing the compliance with the SGP rules (preventive and corrective arms) should be enhanced and simplified by focusing further on an expenditure-based indicator. Importantly, the ECOFIN Council does not envisage any change to legislation underlying the SGP.

The other main changes introduced by the revision of the Six- and Two-Packs took place within the framework of the European Semester and the Macroeconomic Imbalances Procedure.

Those adjustments and reflections are broadly in line with the recommendations put forward by the Parliament in its resolution on the review of the economic governance framework: stocktaking and challenges adopted on 24 June 2015. The EP shares 'the Commission’s analysis that parts of the new framework have achieved results but that the ability to draw conclusions on the effectiveness of the regulations in normal economic times is limited'. It also underlined 'the importance of simple and transparent procedures for economic governance' while warning 'that the current complexity of the framework as well as the lack of implementation and ownership is detrimental to its effectiveness and acceptance by national parliaments, local authorities, social partners and citizens in Member States'.

In addition, the European Parliament urged 'the Commission to fully apply the SGP and ensure its fair implementation in line with its recent review of the 6- and 2- pack and the communication on flexibility' while believing 'that, where necessary and possible, the European Semester should be streamlined and reinforced within the current legislative framework' and 'that any such future streamlining and reinforcements should in any case be stability-oriented'.

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**Further reading:**

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• http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm
• mailto:legislative-train@europarl.europa.eu
ECONOMIC UNION

CONTENT

With a view to deepening the EMU, a joint report ‘Completing Europe’s Economic and Monetary Union’ prepared by the Presidents of the Commission, of the Euro Summit, of the Eurogroup, of the European Central Bank and of the European Parliament sets out a vision and highlights the principal steps required in the short to long term.

The Report presents three different stages until 2025: (i) ‘deepening by doing’ (from 2015 to mid-2017); (ii) ‘completing the EMU’ (after mid-2017): during this period the convergence process will be made more binding; and (iii) ‘final stage’ by 2025 at the latest. At every stage, the report proposes action in four areas: a genuine Economic Union, a Financial Union, a Fiscal Union and a Political Union, i.e. through democratic accountability, legitimacy and institution strengthening.

As regards the deepening of the Economic Union dimension, the Commission took initiatives in autumn 2015, namely:

- **Further streamlining the European Semester**, including steps towards a stronger coordination of economic policies, more targeted country-specific recommendations focusing on growth-enhancing reforms and a better integration of the euro area and national dimensions;
- **A strengthened implementation of the Macroeconomic Imbalance Procedure (MIP)** so as to be used to its full potential;
- a recommendation on the creation of a **euro area system of Competitiveness Authorities** monitoring competitiveness developments in the Member States and providing policymakers and economic stakeholders with assessments, information and advice;
- **Further focus on the social dimension of the EMU**, including the introduction of three indicators relating to labour market adjustment issues into the MIP and the presentation by the Commission of a first and preliminary outline of a **European Pillar of Social Rights within the EMU**.

The abovementioned points also took place within the framework of the revision of the ‘Six-Pack’ and the ‘Two-Pack’.

In the medium term (Stage 2), the Five Presidents’ Report foresees the adoption of a set of commonly agreed benchmarks for convergence, which would have legal nature. This would be part of the efforts to increase convergence and make the process more binding.
FINANCIAL UNION / €209BN

CONTENT

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As regards the deepening of the Financial Union dimension, the Commission submitted new initiatives in the short term to complete the Banking Union. At the same time, it has pursued the establishment of a Capital Markets Union.

As regards the completion of the Banking Union, a proposal on a European Deposit Insurance Scheme (EDIS) was tabled in November 2015. This third pillar of the Banking Union aims to further safeguard financial stability, improve the resilience of the banking sector and ensure the safety of depositors’ money. Capital flight and deposit outflows could indeed have sizeable destabilising impacts on a local bank or the entire banking sector and, ultimately, on the real economy. Work on the EDIS is in progress in the Council and ECON committee. In addition, the Council agreed to put in place a system of bridge financing arrangements for the Single Resolution Fund. Meanwhile, negotiations within the Council have continued concerning the set-up of a credible common fiscal backstop for both during the transition period and in steady state.

At the same time, the Commission presented in a communication additional risk-reducing measures in the banking sector, which aims to improve further the resilience of credit institutions and to weaken the nexus between banks and sovereigns. In response, the Council agreed on a roadmap to complete the Banking Union. Most recently, the Commission tabled a banking reforms package
aiming to reduce risk in the financial sector.

Alongside the Banking Union, the set-up of the Capital Markets Union is also a key priority aiming to provide alternative sources of finance (e.g. capital markets, venture capital, crowd funding and the asset management industry) to companies that struggle to get funding, especially SMEs and start-ups.

LEGISLATIVE FILE(S) INCLUDED

- JD - EUROPEAN DEPOSIT INSURANCE SCHEME (EDIS)
- SINGLE SUPERVISORY MECHANISM (SSM)
- SINGLE RESOLUTION MECHANISM (SRM)
- FIRST BUILDING BLOCK OF SINGLE RESOLUTION FUND
- SECOND BUILDING BLOCK OF THE SINGLE RESOLUTION FUND
- JD - AMENDMENTS TO THE SINGLE RESOLUTION MECHANISM REGULATION (SRMR)

FISCAL UNION

CONTENT

With a view to deepening the EMU, a joint report 'Completing Europe's Economic and Monetary Union' prepared by the Presidents of the Commission, of the Euro Summit, of the Eurogroup, of the European Central Bank and of the European Parliament sets out a vision and highlights the principal steps required in the short to long term.

The Report presents three different stages until 2025: (i) ‘deepening by doing’ (from 2015 to mid-2017); (ii) ‘completing the EMU’ (after mid-2017): during this period the convergence process will be made more binding; and (iii) ‘final stage’ by 2025 at the latest. At every stage, the report proposes action in four areas: a genuine Economic Union, a Financial Union, a Fiscal Union and a Political Union, i.e. through democratic accountability, legitimacy and institution strengthening.

As regards the deepening of the Fiscal Union dimension, the Commission decided in October 2015 to establish an advisory European Fiscal Board - expected to become operational in September 2016 - whose aim is to contribute in an advisory capacity in the exercise of the Commission’s functions in the multilateral fiscal surveillance, namely to provide a public and independent assessment, at European level, of how budgets - and their execution - perform against the economic objectives and recommendations set out in the EU fiscal framework.

The Commission and the Council have also been reflecting on further improving the clarity, transparency, compliance and legitimacy of
the EU fiscal framework while reducing its complexity. A review of this framework may be presented in 2017. However, the ECOFIN Council does not envisage any change to legislation underlying the SGP.

Under stage 2 (after mid-2017), the Five Presidents’ report considers the set-up of a fiscal stabilisation function for the euro area to better withstand large macroeconomic shocks that cannot be managed at national level. The design of euro area stabilisers requires more in-depth analysis and therefore an expert group will deal with the task.

DEMOCRATIC ACCOUNTABILITY, LEGITIMACY & INSTITUTIONAL STRENGTHENING

CONTENT

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In his 2015 ‘State of the Union’ speech, the Commission President insisted on the need for ‘a more effective and democratic system of economic and fiscal surveillance’ while highlighting that ‘the European Parliament is and must remain the Parliament of the euro area’. As far as the democratic accountability, legitimacy and institutional strengthening dimension is concerned, the Commission has already taken the following initiatives:

- A proposal for a Council Decision under Article 138 TFEU laying down measures in view of progressively establishing a unified representation of the euro area in the International Monetary Fund. At the same time, the Commission issued a Communication setting out the path towards an increasingly unified representation of the EMU, in particular in areas where the EMU is being deepened further, for instance as regards issues relevant to the Banking Union.
• **Measures to reinforce parliamentary oversight as part of the European Semester.** For example, the Commission has started engaging with the European Parliament at a plenary debate both before the adoption of the Annual Growth Survey. Another dedicated plenary debate on the euro area Country-Specific Recommendations with the Eurogroup President has also been established. The streamlining process of the European Semester undertaken by Commission has also led has to an increased involvement of national parliaments and social partners.

The Five Presidents’ report has also called for the integration of intergovernmental agreements into the EU legal framework, including the Treaty on Stability, Coordination, and Governance, the Euro Plus Pact and the Single Resolution Fund, in the short term. The same is foreseen for the European Stability Mechanism but in the medium term (i.e. after mid-2017).

Additional steps are also planned in the medium term. For example, the Eurogroup could play a stronger role, possibly with a full-time Presidency. Similarly, a euro area Treasury – accountable at EU level – could be established.

**LEGISLATIVE FILE(S) INCLUDED**

- INTEGRATION OF THE ESM INTO EU-LAW BY CREATING AN EMF
- INTEGRATION of the FISCAL COMPACT into SECONDARY EU LAW
- EXTERNAL REPRESENTATION of the EMU
- COMMUNAUTARISATION of the EURO PLUS PACT on COMPETITIVENESS
- Democratic legitimacy in the euro area
- Euro area Treasury