



European  
Commission



# Deepening Europe's Economic and Monetary Union

Commission Note ahead of the  
European Council  
and the Euro Summit of  
28-29 June 2018





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

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

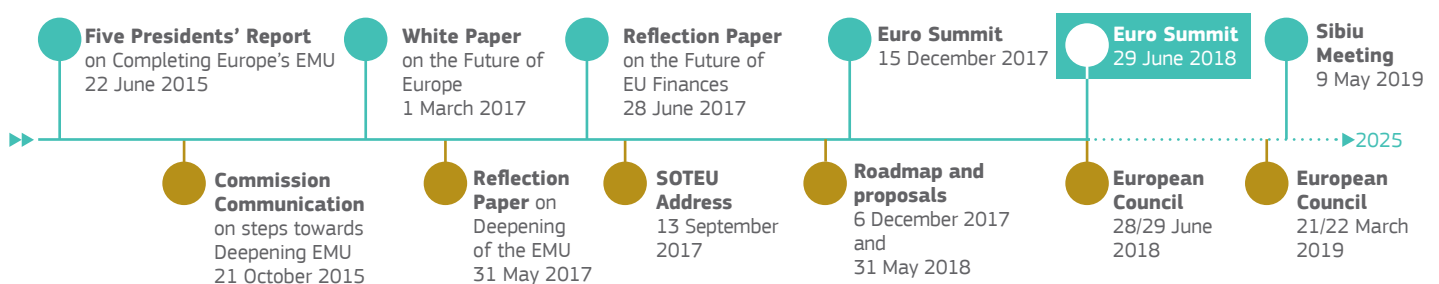
Jean-Claude Juncker, 1 May 2014, then-Candidate for European Commission President

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

This is why the Juncker Commission made the **completion of a deep and fair Economic and Monetary Union one of the ten priorities** for its mandate. Significant progress has been made, but more remains to be done.

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

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



## 1. A PROVEN TRACK RECORD

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

### PROGRESS ALREADY MADE TO STRENGTHEN THE ECONOMIC AND MONETARY UNION

#### Economic Union:

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

#### Banking Union and Capital Markets Union:

- ✓ Single Rulebook: *harmonised rules for a more resilient, more transparent and more efficient European financial sector*
- ✓ Harmonised rules for deposit insurance: *deposits protected up to €100 000 per customer and per bank*
- ✓ Single Supervisory Mechanism/Single Resolution Mechanism: *centralised supervision and resolution of banks in the euro area*
- ✓ Capital Markets Union: *new rules that will promote private risk sharing and improve access to funding*

### EMU Toolbox

#### Fiscal Union:

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

#### Democratic accountability and strong institutions:

- ✓ Increased ownership: *intensified dialogue with the European Parliament, national Parliaments, national Governments and stakeholders*
- ✓ New start for EU social dialogue: *more opportunities for social partners at all levels to discuss priorities*

adopted after the crisis  
agreed during the Juncker Commission

Since the beginning of the **Juncker Commission**, further important measures have been agreed. To boost jobs, growth and investment, the **Structural Reform Support Service** was created to provide Member States with tailor-made support to implement key reforms. The **flexibility embedded in the Stability and Growth Pact** was used to strike the right balance between stabilising the economy and prudent fiscal policy. In addition to the Banking Union, the **new Capital Markets Union** was initiated to further risk-sharing via capital markets, to broaden and improve access to finance for European businesses and to give consumers more options to invest their money sustainably.

As a result, the Economic and Monetary Union is as robust as ever, and this has supported the **economic recovery** in the entire EU. This is also evident in **Greece** which will conclude its stability support programme in August having seen the return of jobs, growth and fiscal sustainability.

## Key facts



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



**EMPLOYMENT:** Employment is at a record high, with 238 million people working across our Union. Unemployment is at its lowest level since 2008. More than 10 million jobs have been created in the EU since the start of the Juncker Commission.



**INVESTMENT:** Investment has picked up again. With the Juncker Plan, we have already triggered more than €294 billion in investment, creating 300,000 jobs and supporting around 644,000 small businesses in the process.



**PUBLIC FINANCES:** The public deficit in the euro area has decreased from over 6% in 2009 to as low as 0.7% in 2018. The ratio of government debt to gross domestic product is forecast to fall to 86.5% this year in the euro area, down from 94.2% in 2014.



**BANKING SECTOR:** European banks are much better capitalised, have much higher liquidity buffers than before the financial crisis, and are therefore better prepared to withstand economic shocks. In the last quarter of 2017, the average total capital ratio of EU banks reached a new high of 19%. In particular, banks under the supervision of the European Central Bank (ECB) have raised €262 billion in additional capital since 2014. The liquidity coverage ratio (LCR) also kept its upward trend, well above the regulatory requirements, with an EU average of 148.5%. For ECB-supervised banks, the stock of liquid assets has increased by €782 billion since 2014.



**NON-PERFORMING LOANS:** The levels of non-performing loans in the EU have come down by more than a third since 2014: the latest figures for the fourth quarter of 2017 show that the NPL ratio declined to slightly below 4%, reaching the lowest level since the last quarter of 2014.

## 2. WHERE WE ARE NOW

### Economic and Fiscal Union

The **European Semester** has been strengthened and streamlined during the Juncker Commission, but the implementation of key reforms in Member States can still be slow and remains a priority. The Commission has **increased the funding of the Structural Reform Support Programme** for the current financing period. For the next Multiannual Financial Framework, the Commission has envisaged a new **Reform Support Programme to boost reforms** with a **total budget of €25 billion**, including both financial and technical support and a targeted **Convergence Facility** for countries wishing to join the euro area. While the **Pillar of Social Rights** has been proclaimed, it needs to be implemented at all levels.

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

## COMPLETING THE ECONOMIC AND FISCAL UNION

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

● PRESENTED/AGREED

● AGREEMENT POSSIBLE BY MAY 2019 IF THERE IS STRONG POLITICAL COMMITMENT FROM ALL EU INSTITUTIONS

## Financial Union

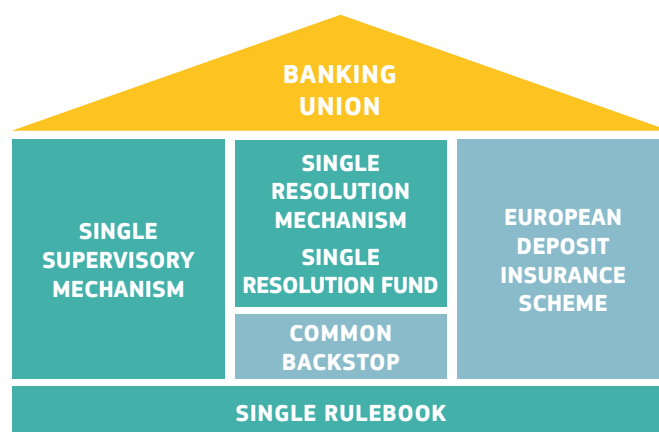
Financial stability has been considerably reinforced in the euro area and in the EU as a whole. The “de-risking” of the banking sector is continuing at a sustained pace. However, the work on financial stability and integration needs to continue, including through swift progress on Capital Markets Union.

## Banking Union

In addition to the reforms already completed, an agreement on **a backstop to the Single Resolution Fund for the Banking Union** is now necessary. The creation of a backstop was already agreed by Member States in 2013. It would be activated as last-resort insurance in the event of a bank resolution and reinforce confidence in the banking system.

Progress is also needed on the Commission's package of March 2018 on the **reduction of non-performing loans** and the creation of an enabling framework for Sovereign Bond-Backed Securities, which will contribute to private risk-sharing and further weaken the link between banks and their home countries.

Finally, it is important to start **political discussions on the European Deposit Insurance Scheme** and agree on a roadmap going forward, for example with a sequential approach, starting with liquidity support where the common scheme would not cover national losses. Putting in place – over time – a common deposit protection scheme is essential for increased trust and resilience of the banking system and the common currency.



## COMPLETING THE BANKING UNION

MEASURE	DESCRIPTION	European Commission	European Parliament	Council of the European Union
<b>European Deposit Insurance Scheme (EDIS)</b>	The proposal would further strengthen the protection of bank depositors across the Banking Union	●	●	●
<b>November 2016 Banking Package</b>	Reinforcing the banking Single Rulebook with further risk-reducing measures and rules to foster banks' infrastructure investment	●	●	●
<b>A backstop for the Banking Union</b>	Making the agreed backstop for the Single Resolution Fund part of the future European Monetary Fund	●	●	●
Further <b>reduction of non-performing loans</b> on EU banks' balance sheets	Package of initiatives to further reduce non-performing loans, complementing previous actions	●	●	●

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## Capital Markets Union



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

## DELIVERING ON THE CAPITAL MARKETS UNION

MEASURE	DESCRIPTION	European Commission	European Parliament	Council of the European Union
Legislative proposal on <b>business insolvency and restructuring</b>	Legislative proposal on preventive restructuring and second chance for businesses	●	●	●
Commission proposal for a <b>Pan-European Personal Pension Product (PEPP)</b>	New rules to provide pension providers with the tools to offer a simple and innovative Pan-European Personal Pension Product	●	●	●
Commission proposal for a review of the <b>European Supervisory Authorities</b>	Reform of the EU's supervisory architecture for stronger and more integrated financial markets	●	●	●
More proportionate and effective rules for <b>investment firms</b>	A more targeted regime to reduce risks in investment firms' activities	●	●	●
Commission proposals implementing the Action Plan on <b>sustainable finance</b>	First legislative measures, including harmonised criteria to determine whether an economic activity is environmentally sustainable, to increase transparency and facilitate investment in sustainability through new sustainable benchmarks	●	●	●
Commission Action plan on financial technology ( <b>FinTech</b> ) and a legislative proposal for an EU framework on <b>crowdfunding</b> and peer-to-peer lending	EU strategy to promote financial innovation while protecting consumers and investors. New EU rules to boost and facilitate cross-border activity in the crowdfunding sector	●	●	●
<b>European covered bonds</b>	New rules to promote covered bond markets as a source of funding for banks thereby increasing lending to the economy	●	●	●
Facilitate <b>cross-border distribution of investment funds</b>	Legislative initiative for easier EU-wide distribution of investment funds	●	●	●
Clear rules on <b>ownership of securities and claims</b>	Measures to enhance legal certainty in cross-border transactions in claims and securities	●	●	●
Rules to give <b>smaller businesses easier access to growth markets</b>	New rules to give small and medium enterprises better access to financing through public markets	●	●	●
Targeted amendments to the <b>European Market Infrastructure Regulation (EMIR)</b>	Improving the functioning of the derivatives market and ensuring a more robust supervision of central counterparties (CCPs)	●	●	●
Enabling framework for <b>Sovereign Bond-Backed Securities</b>	Help investors diversify their euro area sovereign portfolios and contribute to weakening the link between banks and their home countries, without involving any mutualisation of risks and losses among Member States	●	●	●

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## Democratic accountability and strong institutions

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

In December 2017, the Commission presented a proposal to establish a **European Monetary Fund**, anchored within the EU's legal framework and built on the well-established structure of the European Stability Mechanism. The proposal for an EMF preserves the governance structure of the Member States and fully respects the role of national Parliaments.

To make sure the voice of the euro is heard globally, the Commission proposed to improve the **external representation of the euro area** in international financial organisations such as the International Monetary Fund.

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

### DELIVERING DEMOCRATIC ACCOUNTABILITY AND STRONG INSTITUTIONS

MEASURE	DESCRIPTION	European Commission	European Parliament	Council of the European Union
<b>External representation of the euro area</b>	Progressively establish a unified representation of the euro area in the International Monetary Fund	●	●	●
<b>European Monetary Fund</b>	Establish a European Monetary Fund, anchored within the EU's legal framework and built on the structure of the European Stability Mechanism	●	●	●
<b>European Minister of Economy and Finance</b>	The Minister could strengthen the coherence, efficiency, transparency and democratic accountability of economic policy-making for the EU and the euro area	●	-	-

● PRESENTED/AGREED

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### 3. THE WAY FORWARD

The **Euro Summit of 29 June 2018** is a further step towards a more robust Economic and Monetary Union that delivers on the expectations of citizens. The time to fix the roof is when the sun is shining.



All outlined steps would be part of **a package** and overall **roadmap**.



This will allow building **trust** and unblocking entrenched positions, ensuring risk reduction while enabling risk sharing.



All measures follow the same aim: **stability and resilience**.

Concrete decisions towards completion of the Banking Union should be a priority, but there are other important elements on the table where progress is urgently needed.

#### Agreement on features of the backstop for the Single Resolution Fund:

- Based on the **European Stability Mechanism (ESM)**.
- Maximum volume of **€60 billion**.
- Efficient decision-making process while respecting legitimate (constitutional) rights of national Parliaments.
- To become **operational in 2020**, subject to ratification of the amendment of the ESM Treaty.

#### Regarding the European Deposit Insurance Scheme:

- Commit to a staged calendar and start political discussions after the Euro Summit.
- Follow an approach **in several stages**, starting with liquidity support where the common scheme would not cover national losses.
- Aim for **December Summit to conclude on a roadmap**, including a target date for the first phase.

#### Agreement on the main features of a Stabilisation Function to become effective with the new Multiannual Financial Framework (MFF) 2021-27:

- Within the EU framework.
- Based on **loans with a grant component**.
- Covering the Euro area and countries of the Exchange Rate Mechanism (ERM II).
- Subject to strict eligibility criteria.
- Managed by the Commission.

#### Furthermore, it would be important to:

- Give direction on the role of the **European Stability Mechanism** and ensure its future incorporation into EU law.
- Give general **support to the Reform Support Programme** as a way to provide budgetary and technical support for reforms under the next MFF.
- Give general support to the Commission's legislative **package to tackle non-performing loans** (proposed in March 2018).
- Invite the EU legislators to conclude all pending **Capital Markets Union files** by end 2018.
- Invite the EU legislators to adopt the pending **proposal on insolvency** by end 2018, so that sound companies can be restructured and continue to honour their bank loans.



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