Eurogroup
The President

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To the members of the Eurogroup

Subject: Eurogroup of 15 June 2017

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 15 June in Luxembourg, to which we welcomed Toomas Toniste and Paschal Donohoe, the newly appointed Estonian and Irish Ministers of Finance. Our meeting was attended by Vice-President Valdis Dombrovskis and Commissioner Pierre Moscovici, ECB President Mario Draghi and Executive Board Member Benoît Coeuré, as well as ESM Managing Director Klaus Regling. We also welcomed Christine Lagarde, Managing Director of the IMF, for the IMF Article IV review of the euro area as well as the item on Greece. Elke König, Chair of the Single Resolution Board, and Sabine Lautenschläger, Vice-Chair of the ECB Supervisory Board, also joined us, to present the first case of implementation of the European resolution framework.

1. Implementation of the European resolution framework

We were debriefed by the Single Resolution Board, the ECB Supervisory Board, the Commission and the Spanish Minister on the recent bank resolution case, which, even though carried out under enormous time pressure, was fully in line with our established resolution framework. We welcomed that all parties involved in the resolution cooperated well, acted in a very swift manner and thus ensured a continuation of core functions of the bank and no resulting costs for the taxpayers. I concluded that we will have an opportunity to return to this issue once a post-mortem assessment is available and in the context of the upcoming reviews by the Commission of the SSM Regulation and SRM Regulation.

2. Draft Eurogroup work programme for the second semester of 2017

We endorsed the Eurogroup work programme for the second semester of 2017 with the addition of an item on Deepening EMU in our July meeting. We agreed to keep non-euro are Member States adequately involved and informed of our discussions on this topic.

3. Thematic discussions on growth and jobs – QPF: Spending reviews – follow up

Following the adoption last September of a set of common principles guiding the design and implementation of spending reviews, we returned to this issue to take stock of progress achieved and to identify remaining challenges, on the basis of the results of a survey conducted by the Commission. Following presentations by some Ministers on their national experiences, we welcomed the fact that spending reviews are now a widely used instrument to monitor public spending in the euro area Member States. We agreed that a key issue going forward concerns in particular ownership, notably in the implementation and follow-up phase. Against this background, we mandated the EWG to work further on the topic and agreed to continue this workstream next year, via an exchange of best practices targeted on the main challenges.

4. IMF Article IV review of the euro area

The International Monetary Fund presented the outcome of the Article IV mission to the euro area. The Fund confirmed that the euro area economy is strengthening, with the recovery becoming broad-based. Stressing the positive developments for the euro area from an economic and political point of view, the Fund considered that there was currently a limited window of opportunity for reforms to increase the resilience of euro area economies. The lack of real income convergence among euro area countries was highlighted and the Fund called on high debt countries to consolidate while those with fiscal space were encouraged to boost potential growth by spurring investment. On the topic of further EMU deepening, the Fund highlighted three priorities: 1) completing the banking union, 2) advancing Capital Markets Union (CMU) to foster financing for SMEs and mid-caps 3) and establishing a central fiscal capacity.

The analysis and policy recommendations put forward by the Fund were largely shared by the European institutions. They allowed a rich debate on the challenges and priorities facing the euro area and the European Union. Although the recommendations vary country by country, we have recognised that there is a window of opportunity now to make our economies stronger and to boost our growth potential by continuing our reform efforts. We have also recalled the need to respect and enforce our commonly agreed rules. On a personal note, I recalled the approach outlined in the Five Presidents Report on deepening EMU, stressing that we should pursue in the short run reforms at European level, notably on banking union and CMU and the deepening of the internal market. We should also further discuss what Member States could do to contribute to the smooth functioning of EMU and what is needed in terms of improvement of the integration and governance of the Eurozone.

5. Greece – State of play

The European institutions debriefed the Eurogroup on the state of play of the second review of the stability support programme. We welcomed the ambitious policy package that was agreed between Greece and the institutions and the satisfactory adoption of the agreed prior actions for the second review. In particular, the labour and product market reforms, along with the enhanced use of EU structural funds, technical assistance and parallel growth initiatives, will enable Greece to return to a sustainable growth path. Significant concerns were raised in the meeting regarding ongoing legal proceedings against the members of the Committee of Experts (CoEx) of TAIPED as well as regarding the legal challenges against the former president of ELSTAT. We mandated the EWG to monitor the situation closely and expect Greece to solve this issue as a matter of priority. The Greek Minister confirmed its strong commitment to addressing the matter and to finding a satisfactory solution.

The Eurogroup also discussed the debt strategy for Greece on the basis of the May 2016 agreement and adopted a statement which reflects our joint understanding (see annex).

Against the background of our agreement, the IMF Managing Director informed us that she would shortly recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month Stand By Arrangement.

We addressed the ESM proposal for the terms of the third tranche and signalled political agreement thereto. Following national procedures, the ESM governing bodies are expected to approve the disbursement of the third tranche of the ESM programme amounting to a total of EUR 8.5 bn to cover financing needs, arrears clearance and help start building a cash buffer.

6. Miscellaneous

Under miscellaneous, we agreed that from now on, documents presented in the Eurogroup, notably the Commission notes prepared for the thematic discussions on growth and jobs, would be made publicly available ahead of the Eurogroup meeting, unless the well-founded objections to publication we agreed on in March 2016 apply such as when the author institution objects to their publication.

We also briefly took note and welcomed in principle the intention of Cyprus and Portugal to repay early part of their IMF loans and were informed of the ongoing procedures at both ESM and EWG level.

Yours sincerely,

Jeroen DIJSSELBLOEM

ANNEX: Eurogroup statement on Greece

The Eurogroup welcomes that agreement has been reached between Greece and the institutions on a policy package of structural measures, which aims at shoring up growth and addressing the underlying structural imbalances in public finances and paves the way for a successful completion of the second review of the ESM programme.

The Eurogroup also welcomes the adoption by the Greek parliament of the agreed prior actions for the second review, notably the ambitious post-programme fiscal package, which is composed of an income tax reform broadening the tax base and a pension reform. Together they deliver net savings of 2% of GDP which will underpin the fiscal targets post-2018. It also contains a contingent expansionary package to enhance the growth potential of the Greek economy and to improve the Greek social safety net that will be implemented provided that the agreed medium-term targets are met. We also welcome the adoption of a package of decisive measures to effectively address non-performing loans (NPL), such as establishing an active secondary market, an Out-of-Court Debt Workout framework, as well as all actions to make the Hellenic Corporation of Assets and Participations (HCAP) fully operational.

Moreover, the policy package includes a large number of structural measures aimed at enhancing the growth potential of the Greek economy. With regard to labour market reforms, the Eurogroup welcomes the adopted legislation safeguarding previous reforms on collective bargaining and bringing collective dismissals in line with best EU practices. The Eurogroup also commends the Greek authorities for adopting legislation to implement OECD recommendations to strengthen competition, to facilitate investment licensing and to further open-up regulated professions. We welcome the commitment by Greece to continue on its reform path.

The Eurogroup also commends Greece and the European Commission for the exceptional mobilisation of EU Funds to boost investment in support of jobs and growth since July 2015, for a total amount of nearly EUR 11 bn. The Eurogroup calls upon the Greek authorities to work closely with the European Commission to ensure that additional EUR 970 million made available following the review of the national cohesion policy funding envelopes for the period from 2017 – 2020 are fully absorbed. Furthermore, we commit to continue to provide high-level experts to support the design and implementation of reforms through technical assistance projects.

In parallel the Eurogroup invites Greece together with the institutions as well as relevant third parties by the end of this year to develop and support a holistic growth enhancing strategy including improvements of the investment climate. Further options for mobilizing additional funds from national development banks and other international financial institutions (such as the EIB and EBRD) should be explored.

The Eurogroup supports the efforts of the Greek authorities to work with the European institutions

on the creation of a National Development Bank that would coordinate the implementation of development and promotional activities. The Eurogroup calls upon Greece, the European Commission and IFIs to work together to strengthen the pipelines of viable investment projects. Efforts should be made to step up the technical assistance from the European Investment Advisory Hub with a view to facilitating the preparation of investable projects and the establishment of investment platforms.

Today the Eurogroup discussed again the sustainability of Greek public debt with the objective that Greece regains market access at sustainable rates. The Eurogroup reconfirmed the commitments and principles contained in the statements of May 2016. We noted that the implementation of the agreed short term debt measures already contributes to a substantial lowering of the gross financing needs (GFN) of Greece over the medium and long term and significantly improves the profile of Greek public debt.

The Eurogroup welcomes the commitment of Greece to maintain a primary surplus of 3.5% of GDP until 2022 and thereafter a fiscal trajectory that is consistent with its commitments under the European fiscal framework, which would be achieved according to the analysis of the European Commission with a primary surplus of equal to or above but close to 2% of GDP in the period from 2023 to 2060.

The Eurogroup concluded that debt sustainability should be attained within the framework of the debt measures envisaged by the Eurogroup in May 2016. In this regard, the Eurogroup recalled the assessment of debt sustainability with reference to the agreed benchmarks for gross financing needs: GFN should remain below 15% of GDP in the medium term and below 20% of GDP thereafter so as to ensure that debt remains on a sustained downward path.

The Eurogroup recalls that it stands ready to implement a second set of debt measures to the extent needed to meet the aforementioned GFN objectives, in line with the Eurogroup statement of 25 May 2016. This includes abolishing the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme, the use of 2014 SMP profits from the ESM segregated account, the restoration of the transfer of the equivalent of ANFA and SMP profits to Greece (as of budget year 2017), liability management operations within the current ESM programme envelope taking due account of the exceptionally high burden of some Member States, and EFSF reprofiling within the maximum Programme Authorised Amount.

The Eurogroup stands ready to implement, without prejudice to the final DSA, extensions of the weighted average maturities (WAM) and a further deferral of EFSF interest and amortization by between 0 and 15 years. As agreed in May 2016, these measures shall not lead to additional costs for other beneficiary Member States.

In order to take into account possible differences between growth assumptions in the DSA and

actual growth developments over the post-programme period, the EFSF reprofiling would be recalibrated according to an operational growth-adjustment mechanism to be agreed. This mechanism will be fully specified as part of the medium-term debt relief measures, following the successful implementation of the ESM programme to make sure the GFN benchmarks defined above are respected and to ensure that the ceiling established by the EFSF Programme Authorised Amount is respected. The Eurogroup mandates the EWG to work further on this as of 2018.

At the end of the programme, conditional upon its successful implementation and to the extent necessary, this second set of measures will be implemented. The exact calibration of these measures will be confirmed at the end of the programme by the Eurogroup on the basis of an updated DSA in cooperation with the European institutions, so as to ensure debt sustainability and compliance with the European fiscal policy framework. This DSA, while based on cautious assumptions, will also take into account the impact of growth enhancing reforms and investment initiatives.

For the long term, the Eurogroup recalls the May 2016 agreement that in the case of an unexpectedly more adverse scenario a contingency mechanism on debt could be activated. The activation of this mechanism would be considered subject to a decision by the Eurogroup and could entail measures such as a further EFSF re-profiling and capping and deferral of interest payments.

Acknowledging the staff level agreement reached with Greece on policies, IMF management will shortly recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month Standby Arrangement. The IMF welcomes the further specification of the debt measures given today by Member States, and agrees that it represents a major step towards Greek debt sustainability. The IMF arrangement will become effective with resources made available in accordance with its terms, provided that the programme stays on track, when IMF staff can assure to the IMF’s Executive Board that there is an agreement on debt relief measures, that, appropriately calibrated at the end of the programme, would secure debt sustainability.

In view of the full implementation of all prior actions and subject to the completion of national procedures, the ESM governing bodies are expected to approve the supplemental MoU and the disbursement of the third tranche of the ESM programme amounting to EUR 8.5 bn to cover current financing needs, arrears clearing, and possibly room to start building up a cash buffer.

In view of the ending of the current programme in August 2018, the Eurogroup commits to provide support for Greece’s return to the market: the Eurogroup agrees that future disbursements should cater not only for the need to clear arrears but also to further build up cash buffers to support investor's confidence and facilitate market access.