COUNCIL OF
THE EUROPEAN UNION

Brussels, 21 December 2012

18104/12

PE 618
ECOFIN 1110
FIN 1080
FISC 208
JUR 649
RESPR 16

NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)**, held in Brussels on 17 and 18 December 2012

The meeting was chaired by Ms Bowles (ALDE, UK).

1. Adoption of agenda

The agenda was adopted.

2. Approval of minutes of meetings

The minutes of the meetings held between July and November 2012 were approved.

3. Monetary dialogue with Mario Draghi, President of the European Central Bank

ECON/7/00032

In his introductory statement, Mr Draghi read out the speech in Annex I.

Mr Draghi praised the agreement in the Council establishing a Single Supervisory Mechanism (SSM) which he felt would help to restore confidence, revive inter-bank lending and cross-border credit flows and break the vicious circle between sovereigns and banks. He expected a gradual recovery in the second half of 2013 and announced the decision by the European Central Bank (ECB) to conduct non-standard monetary policy measures at least until July 2013. He noted that credit was continuing to contract in parts of the EU due to the current economic weaknesses and to balance sheet adjustments by banks and businesses. He underscored the relationship between monetary policy and financial supervision and reassured the committee that the ECB's involvement in financial supervision would have no bearing whatsoever on the primary objective of price stability. He explained that the geographical scope covered by the supervisory board could be somewhat wider than the euro area. The board would carry out financial supervision and this stronger supervision would facilitate the conducting of monetary policy and foster a stable macroeconomic environment with stable prices. He also stressed the determination of the European Union to act in a timely and decisive manner to complete Economic and Monetary Union (EMU) and highlighted the latest European Council conclusions. He singled out the improvement of the economic union by restoring competitiveness and the functioning of product and labour markets and the establishment of a single resolution framework as the two main priorities for 2013.

In the subsequent exchange of views, MEPs generally welcomed the Council agreement on banking supervision, but voiced some concerns over possible loopholes, lack of clarity and the ECB's ability to assert its authority at national level.

In response, Mr Draghi told Mr Langen (EPP, DE) that he considered the legal foundations for the creation of the SSM to be sufficient and explained to Mr Eppink (ECR, BE) that the ECB had not participated actively in its conception. He reiterated the independence of the SSM's supervisory board and explained that it would be made up of national supervisors, ECB members and possibly non-euro Member States. He added to Mr Gauzès (EPP, FR) that the ECB would work together with national supervisors.
He agreed with Ms Goulard (ALDE, FR) that democratic accountability and scrutiny were essential, and endorsed the concern of Mr Terho (EFD, FI) to have a clear separation between the ECB's governing council and the SSM supervisory board.

Mr Draghi mentioned to Ms Thyssen (EPP, BE), Ms McCarthy (S&D, UK) and Mr Lamberts (Greens/EFA, BE) that the ECB would issue general guidelines to national supervisors instead of specific instructions; that it would supervise directly around 150 banks (with a EUR 30 billion threshold); and that the remaining banks would be under national supervision. He stressed that the ECB would always have the last word regarding supervision and added that precise figures and numbers had not yet been defined.

He pointed out to Ms Thyssen that a single resolution scheme would ensure coherence, adding that the size was secondary. He considered it important to implement the SSM correctly and warned against rushing the process, stressing the importance of having the single resolution authority and the mechanism in place at the same time, so as to be able to deal effectively with failures without disrupting payment systems and using taxpayers' money.

He told Mr Sánchez Presedo (S&D, ES) and Mr Skinner (S&D, UK) that the European Stability Mechanism (ESM) would decide which banks would be subject to direct recapitalisation and added that it was currently only possible to say which banks could ask for assistance but not to determine which banks would need it.

He explained to Ms Matias (GUE/NGL, PT) that solidarity needed to go hand in hand with responsibility and risk sharing and pointed out to Ms Podimata (S&D, EL) that a common deposit guarantee scheme required debt 'mutualisation' and consequently the pooling of sovereignty.

He explained to Ms Ferreira (S&D, PT) and to Ms Podimata that Member States were responsible for the distribution of the Securities Markets Programme (SMP) profits. He mentioned to Mr Zalba Bidigain (EPP, ES) that EUR half a trillion had been injected in the economy through the long-term refinancing operations (LTROs) to restore credit to the real economy. He pointed out that a reduction in demand had kept credit flows subdued and that the extra liquidity had not found its way into the economy. He also told Mr Langen that despite the ECB's inducements to restore credit channels many banks had decided to repay their own bonds and to buy government bonds and he confirmed to Ms Wortmann-Kool (EPP, NL) the ECB's readiness to use Outright Monetary Transactions (OMTs) if necessary.

He told Mr Feio (EPP, PT) and Ms Ferreira that fiscal adjustments were necessary and justifiable and that debt reduction remained a priority and should be achieved primarily through the reduction of public expenditure rather than through tax increases. He underscored to Mr Tremosa I Balcells (ALDE, ES) the recent positive figures for Spain and pointed out to Mr Mitchell (EPP, IE) that the euro area had the best economic fundamentals compared to other parts of the world but needed to correct unbalances to build a more genuine EMU.

Ms Bowles (ALDE, UK) informed the committee that the next monetary dialogue would take place on 18 February 2013.

4. Exchange of views and Economic Dialogue with the President of the Council (ECOFIN), Vassos Shiarly (Finance Minister of Cyprus)

ECON/7/09863

In his initial address, Mr Shiarly delivered the speech in Annex II in which he highlighted the Cyprus Presidency's major achievements. These included the agreement on the general approach on proposals aimed at the establishment of a Single Supervisory Mechanism (SSM) for the oversight of credit institutions approved by EU leaders, the political agreement with the European Parliament (EP) and the Commission on credit rating agencies and on venture capital and entrepreneurship funds, as well as the substantial progress on the 'two-pack' and the capital requirements files. He also commented on the latest developments regarding Greece, the road map towards a genuine Economic and Monetary Union (EMU) and the agreement on the proposal for enhanced cooperation on the Financial Transactions Tax (FTT), whilst asserting that further integration of policymaking and greater pooling of competences needed to be accompanied by a commensurate involvement of the EP.

In the debate that followed, both EP rapporteurs for the 'two-pack', Mr Gauzès (EPP, FR) and Ms Ferreira (S&D, PT), praised the Cyprus Presidency and its staff for the progress achieved in negotiations and for the improvement in relations between the Council and the EP. Mr Schmidt (ALDE, SE) also welcomed the work of the Cyprus Presidency but mentioned the slow progress of discussions with the Council on the investor-compensation schemes file for which he was the EP rapporteur. He also criticised the Council's lack of commitment regarding gender issues, asked for Mr Shiarly's opinion regarding the SSM and asked if Latvia's accession to the euro area had been discussed at Council level.
Ms Ferreira questioned the quality of recommendations at Council level and the current discrepancy between projections and results. She also enquired about the modalities and conditions regarding access to direct recapitalisation.
Mr Shiarly thanked the three speakers for their positive comments and underlined the good cooperation between the Council and the EP. He told Ms Ferreira that the current diverging approaches reflected the period of instability that the European Union was experiencing and that the Council was drawing the appropriate conclusions.

Mr Shiarly informed Mr Schmidt that Latvia's accession to the euro area had not been discussed during the Cyprus Presidency. He pointed out that the SSM had been conceived for use across the EU and mentioned the broad agreement reached at Council level, which, he felt, safeguarded the interests of all stakeholders. He pointed out to Ms Ferreira that it had now been agreed that the European Central Bank (ECB) would be able to supervise any bank and that exceptional cases could be considered for direct recapitalisation before the implementation of the SSM, scheduled for March 2014. He also explained to Mr Schmidt that progress on the investor-compensation schemes negotiations could only be expected once there had been developments on both the deposit guarantee scheme and the crisis management files.

Ms Kratsa-Tsagaropoulou (EPP, EL) enquired about the content of discussions regarding assistance and taxation in the 'programme countries'. Mr Shiarly indicated that such matters were primarily dealt with by the troika and were only referred to the Council for approval. Ms Podimata (S&D, EL), rapporteur for the Financial Transactions Tax (FTT), advocated a fiscal union and tax harmonisation and asked for the minister's view regarding taxation as a catalyst for social change and economic growth. Mr Shiarly replied that indirect taxation had already been harmonised and that taxation matters required unanimity in the Council. He supported harmonisation as long as it safeguarded the interests of all Member States and pointed out that taxation was not the only key factor influencing economic development.

Mr Sánchez Presedo (S&D, ES), rapporteur for the mortgage reform called for a rapid conclusion of trilogue negotiations. Mr Shiarly acknowledged the importance of the file and promised to forward these concerns to the Irish Presidency.

5. Establishing a facility for providing financial assistance for Member States whose currency is not the euro

ECON/7/09961 2012/0164(APP)
Rapporteur: Ms Danuta Maria Hübner (EPP, PL)
First exchange of views

In her opening statement, Ms Hübner (EPP, PL) reminded the committee that since 2002 there was a facility for providing assistance to Member States (MS) that were not part of the eurozone which had been used by Latvia, Romania and Hungary. She noted that the Commission had proposed some adjustments to the existing regulation by introducing some new instruments to keep pace with the changing framework in the eurozone.

Ms Hübner pointed out that the assent procedure enabled the European Parliament (EP) to have either a own-initiative report or a resolution to formulate some expectations and have them voted in plenary by April 2013. She established a link between her report and that of Mr Gauzès (EPP, FR) in the 'two-pack' and suggested aligning them. She also proposed the creation of a fiscal backstop for non-eurozone countries not adhering to the Single Supervision Mechanism (SSM). Lastly, she underlined the constraints on the level of financial assistance of having the EU budget as collateral and raised the possibility of creating a new fund through an intergovernmental treaty.

In the subsequent debate, the rapporteur received broad support from all speakers (Mr Cutaş -S&D, RO- Mr Schmidt -ALDE, SE- and Mr Giegold -Greens/EFA, DE-).
Mr Cutaş agreed with calls for either a resolution or an initiative report and to have it aligned with Mr Gauzès' report to ensure coherence regarding the procedural conditions for the application of financial assistance between euro and non-euro MS. He considered that non-euro MS should have more financial instruments at their disposal, but questioned the feasibility of having similar funds available for euro and non-euro MS.
Mr Schmidt also supported the introduction of two new credit lines. Additionally, he suggested giving the EP a budgetary oversight role in the granting of financial assistance, including the disbursement of different instalments, and recommended addressing the impact of such measures on Member States' budgets since the EU budget would serve as collateral in the event of defaults.
Similarly, Mr Giegold shared the rapporteur's views on including democratic scrutiny and social fairness in the conditionality of the respective programs. He proposed assessing the social impact in eastern and central European MS under assistance and considering the creation of a common financial backstop for euro and non-euro countries within the framework of the SSM to ensure a level playing field.

The Commission representative explained that the present revision was intended to improve the safety net for non-euro MS, to develop surveillance mechanisms, and to remove red tape. He stressed the Commission's commitment to including in the text the amendments proposed by the EP in the Gauzès report. He warned against the repercussions of the use of direct recapitalization on the EU budget, in the event of it being the ultimate backstop, and the negative impact it could have on the credit rating agencies' perception of the EU budget, suggesting instead the use of a facility known as 'loan for bank recapitalization', which could be used without the need for a macro-economic adjustment programme and which would pose fewer problems from a risk point of view.

The Commission representative revealed efforts to establish a legal separation within the ESM to minimise risk through the creation of a Special Purpose Vehicle (SPV) without significantly impacting the lending capacity and underlined the technical difficulties of achieving this objective. He explained that at present the ESM could only be used as a financial backstop for the euro MS, but that the Commission remained open to suggestions.

Ms Bowles informed the committee that the timetable had not been set yet. She suggested initiating the drafting and deciding at a later stage on the nature of the text.

6. Securities settlement in the EU and central securities depositories (CSDs), and amendment of Directive 98/26/EC

ECON/7/09123 2012/0029(COD)
Rapporteur: Ms Kay Swinburne (ECR)
Consideration of amendments

In her opening remarks, Ms Swinburne (ECR, UK) informed the committee that she had circulated a compromise text consisting of technical amendments and an additional text intended to reach a cross-party agreement on Central Securities Depositaries (CSDs) with banking licences including the necessary conditions to facilitate a single market solution and new market entrants.

In the debate that followed, Mr Dorfmann (EPP, IT) noted that the debate was centred on Article 52. He supported the rapporteur's approach and considered it essential to ensure separation between bank services and central administrations. He favoured a level playing field at European level in terms of approval procedures in which the European Securities and Markets Authority (ESMA) would have the last word to ensure impartiality. In his opinion, CSDs offering banking services should have full banking licences. He considered the Scandinavian working model a good reference and revealed that he would only favour links between CSDs if these were truly interoperable, adding that if they were merely informal than there would be no grounds for an approval procedure.
Mr Sánchez Presedo (EPP, ES) proposed discussing the solidity of the framework and the distinction between central and auxiliary services to avoid contagion. In his opinion, both investor and shareholder rights as well as the transparency of information had to be guaranteed in order to avoid discrimination and protect SMEs.
Ms Bowles (ALDE, UK) underlined the existence of different opinions within her group.
She told the committee that her group had decided to reject the Commission's derogation approach to compel CSDs to split their banking, auxiliary and core settlement services.

Ms Bowles also explained that her group remained unconvinced regarding the suggestion to split CSDs with a banking licence and in particular the international CSDs in order to mitigate risk. In her opinion CSDs wishing to continue performing banking, auxiliary and settlement activities had to adhere to very strict prudential requirements (adhering to the relevant parts of the Capital Requirement Directive, having robust recovery and resolution plans, complying with the relevant parts of the crisis management Directive, publishing a detailed analysis of the intra-day and credit liquidity risks) and prove to the competent authorities that their CSD activities would continue to operate normally in the event of their banking arm facing difficulties. She favoured symmetrical arrangements enabling a CSD to become a limited bank and vice-versa in order to avoid discrimination.

As regards Article 7 and settlement discipline, she favoured flexibility in the new regime which could prevent unintended consequences in markets across the EU and disincentives for SMEs to use capital markets at a time when banks were experiencing difficulties lending. She proposed exempting SMEs and less liquid stocks from buying arrangements, possibly at the discretion of competent authorities, to ensure liquidity and transparency.

Ms Bowles pointed out that the regulation[1] completed the access arrangements in the European Markets Infrastructure Regulation (EMIR) and Markets in Financial Instruments Regulation (MiFIR) to establish a competitive single market in post trading services. She noted that it was important that the licences authorised in EMIR, MiFIR and the Central Securities Depositories Regulation (CSDR) could not be used to prevent competition from other market infrastructures or participants. She mentioned that ESMA had to monitor these arrangements and report to the Commission. She added that the EU could not have infrastructures that distorted competition and hindered the single market and, consequently, gave rise to more systemic infrastructure and further potential tax payer guarantees.

On Article 33, Ms Bowles considered it reasonable that when a CSD played a role in repositories and securities lending transactions, it could collate and store information and make it available to the competent authorities, including the European Banking Authority (EBA), ESMA, the European System of Central Banks (ESCB) and the European Systemic Risk Board (ESRB). In Article 2, she proposed encouraging CSDs to use international transparent open communication procedures to minimise obstacles to access by other participants or infrastructures.

[1] Articles 44 (a) and 52 (a), on CSDs with banking licences and access arrangements.

Mr Besset (Greens/EFA, FR) expressed the broad support of his group except for Article 52 regarding the separation of regulatory and banking activities. He considered the rapporteur's approach ambiguous and recommended sticking to the principle of clear separation of the two activities through a transitional period of 2 to 3 years.
Ms Essayah (EPP, FI) thought that the OMNIBUS and direct holding models should be treated equally and that the latter was more efficient. She proposed giving consideration to the creation of an integrated securities settlement market with common standards and full interoperability similar to the Single European Payment Area (SEPA). In her opinion, it should be sufficient for a customer to use the services of one custodian to invest in any EU securities. She also proposed shortening the settlement period after trade to one business day by 2017 and to the same day by 2020 to foster savings and transparency.
Ms Thyssen (EPP, BE) opposed the Commission proposal to use exclusively a 2+2 model regarding the splitting of services and suggested instead using both the 1+2 and 2+2 models.

The Commission representative explained that safety had to come first and that a segregated model was the safer option. She noted that the segregated model should be the rule and the integrated model the exception. Regarding the buy-in periods she pointed out that regulating concrete exceptions was difficult in terms of definitions. She explained that there could be an option delaying the buy-in period for certain types of products, such as for instance an option for the receiving counter party to decide on a case-by-case basis. In her opinion, both the direct holding and OMNIBUS models should be treated on a horizontal basis in the context of the securities law initiative planned for Spring 2013.

Ms Swinburne noted the broad agreement among speakers that combining a CSD with a bank should be the exception and not the rule. She asked if it was reasonable to allow those currently using that model to continue to do so indefinitely or if it would be advisable to encourage a transition towards a separate model. She explained that in her text, the buy-in proposals on settlement discipline were not mandatory and were instead at the instigation of the recipient. She thought that the enhancement of transparency would improve the system and that it was essential to move ahead with the Securities Law Directive (SLD) in order to consider a single European securities area.

Vote in ECON: 21 January 2013. Vote in plenary: May 2013.

7. Chair's announcements

Ms Bowles (ALDE, UK) announced that the Commission was due to adopt very shortly delegated acts on the European Markets Infrastructure Regulation (EMIR) based on the draft regulatory technical standards prepared by the European Securities Markets Authority (ESMA) and by the European Banking Authority (EBA). She explained that the European Parliament (EP) had a one month scrutiny period and that the current Commission timeline made this impossible for the EP. Therefore she informed the committee that she would ask for the scrutiny period to be extended by one month. She asked the Commission to reply to the comments submitted by the EP on the draft regulatory standards in order to be able to consider its reply during the scrutiny period.

She told the committee that 2 political trilogues on the Capital requirements Directive and Regulation (CRD IV) had taken place in Strasbourg covering macro-prudential flexibility and additional capital buffers for systemic institutions, additional mediation powers for the EBA, remuneration, liquidity and the leverage ratio, and that around 10 agenda items remained to be discussed.

After political agreement had been reached with the Council, under rule 73 of the EP rules of procedure, she re-consulted the committee on the Credit Rating Agencies Regulation (CRA3), on both the European Venture Capital and the European Social Entrepreneurship Funds and the reform of the National and Regional accounts, and received authorisation to table all the agreed texts for a vote in plenary (CRA3 in January 2013, both texts on the funds in February or March 2013; no date has been fixed yet for the accounts).

She also informed the committee that she would either propose an own initiative report or a resolution on the National and Regional Accounts as she had identified more outstanding issues.

****** Voting time ******

8. European statistics

ECON/7/09349 2012/0084(COD)
Rapporteur: Mr Edward Scicluna (S&D)
Adoption of draft report

The draft report was approved, with 38 votes in favour, 0 against and 1 abstention.

The committee decided to enter into first-reading agreement negotiations with 38 votes in favour, 1 against and 0 abstentions.

9. Improving access to finance for SMEs

ECON/7/09746 2012/2134(INI)
Rapporteur: Mr: Philippe De Backer (ALDE)
Adoption of draft report

The draft report was approved, with 40 votes in favour, 0 against and 0 abstentions.

****** End of vote ******

10. Date of next meeting

The next meeting will be held in Brussels on 10 January 2013.

Speech by Mr Draghi, President of the European Central Bank

Madam Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

It is a pleasure to be back here in Parliament and in front of your Committee for our last exchange of views in 2012.

This year has not been an easy one. It has been a year when the ties that bind the Member States of the euro area have been tested. But it has also been a year in which a longer-term vision for Economic and Monetary Union (EMU) has been formulated. And it is a year in which that vision has begun to be translated into actions, including on vital reforms of European governance.

We end the year on a positive note with the re-launching of that longer-term vision, with the proactive steps taken by governments and European institutions towards a genuine EMU and, most recently, with the unanimous agreement by the ECOFIN to establish a Single Supervisory Mechanism (SSM).

Let me congratulate your Committee for the swift adoption of its position on the SSM and its ambitious European approach. This a clear demonstration that European institutions are determined to act in a timely and decisive way to complete EMU. And it is a clear demonstration that euro area Member States are ready to agree to a substantial sharing of sovereignty when circumstances require.

Recent agreements mark a major qualitative step towards a stable EMU. The establishment of the SSM can be expected to be a key turning point in the resolution of our current challenges.

The SSM will contribute to restoring confidence in the banking sector across the euro area. It will help to revive inter-bank lending and cross-border credit flows, with tangible effects for the real economy. And combined with possible direct recapitalisation of banks by the European Stability Mechanism and an envisaged single resolution mechanism, the SSM will go a long way towards breaking the vicious feedback loops between sovereigns and banks.

I hope that the legislative process can now be concluded swiftly. After the adoption of the relevant legal acts, the European Central Bank (ECB) will launch the preparations so that the SSM can be established within the timeline foreseen by the legislators.

In my introductory remarks today, I will first briefly summarise the economic and monetary situation. I will then address the relationship between monetary policy and financial supervision.

And I will close by outlining my views on the priorities for 2013 in implementing the shared longer-term vision for EMU.

1. Economic and monetary developments

Since our last meeting, the ECB has left its key interest rates unchanged: the main refinancing rate stands at 0.75%; the rate on the deposit facility at 0%; and the rate on the marginal lending facility at 1.50%.

On non-standard monetary policy measures, the Governing Council decided in December to continue conducting all refinancing operations as fixed rate tender procedures with full allotment, at least until July 2013.

The medium-term outlook for economic activity remains challenging. Economic activity contracted for a second consecutive quarter in the third quarter of 2012, and indicators for the fourth quarter signal further weakness, although some recent survey indicators have stabilised at low levels and financial market sentiment has improved further. Domestic demand is dampened by still weak consumer and investor sentiment and the ongoing balance sheet adjustments in the banking and business sectors, which continue to weigh on investment decisions.

We expect economic weakness to extend into next year with a very gradual recovery in the second half of the year. The recovery is expected to be supported by strengthening global demand, a highly accommodative monetary policy stance and significantly improved confidence in financial markets, all of which should work their way through to spending and investment decisions.

Annual inflation in the euro area has continued to moderate, falling from 2.5% in October to 2.2% in November. Looking ahead, inflation is expected to decline further. This should support real disposable incomes.

Risks to the outlook for price developments are broadly balanced. Inflation expectations for the euro area remain firmly in line with the Governing Council's aim of maintaining annual inflation rates below, but close to, 2%.

Our monetary analysis paints a picture consistent with price stability. Looking at developments over several months, the underlying pace of monetary expansion, when accounting for special factors, remains subdued. Loan dynamics are also subdued and in many parts of the euro area, credit has been contracting. This is the result of balance sheet adjustments by banks and businesses as well as the current economic weakness.

2. Monetary policy and financial supervision

Let me now turn to the first topic chosen for our exchange of views, namely the relationship between monetary policy and financial supervision.

The discussions leading to the recent decision to establish the SSM have raised questions about how monetary policy responsibilities and supervisory responsibilities should be appropriately separated.

In recent years, many central banks have, for good reasons, assumed supervisory roles. Fourteen of the 17 national central banks in the euro area have a role in supervision and so too do several major central banks elsewhere in the world.

Indeed, the global financial crisis has generally led to closer ties between central banks and financial supervision. The Bank of England, for example, will soon assume supervisory responsibilities previously assigned to the Financial Services Authority. In the US, the role of the Fed in financial supervision has been strengthened.

This all suggests that the relationship between monetary policy and financial supervision is particularly important in times of crisis. It is not by chance that historically the first central banks were supervisors of commercial banks.

The ECB will establish clear guiding principles and internal operating practices to ensure effective separation of monetary policy and financial supervision. Let me briefly elaborate.

First, the ECB's involvement in financial supervision has no bearing whatsoever on our primary objective of price stability. It bears neither on the objective itself, which is statutory, nor on its quantified expression of inflation rates below, but close to, 2%.

Second, a supervisory board will form the centre of gravity for the conduct of financial supervision. It may encompass a geographical entity that is somewhat wider than the euro area if, as we hope, several countries that are not currently euro area Member States decide to join the SSM.

Third, separation between monetary policy and financial supervision will in particular take the form of independent analysis and prescription for the use of policy tools for each of the two functions. This will rely on strong governance.

We will establish appropriate internal procedures that ensure clear functional separation. Here we will follow international best practice.

While separation of the two functions is essential, it is an established fact that stronger supervision facilitates the conduct of monetary policy. Let me give you just two examples.

First, in the absence of financial stability, standard monetary policy tools – namely, changes in the short-term interest rate – lose some of their potency. Effective supervision that contributes to a stable financial system can only benefit the smooth transmission of monetary policy.

Second, effective financial supervision can counteract excessive leverage and exuberant credit expansions, which can generate inflationary pressure over the longer term. Thus, in mitigating the build-up of macroeconomic imbalances, effective supervision can foster a stable macroeconomic environment with stable prices.

Monetary policy will stay credibly oriented towards price stability. In so doing, it secures the trust of markets and the public in the stable purchasing power of a currency. This stabilises market expectations, lowers volatility and creates an environment for stable financial markets.

We have begun internal reflections on all these issues, together with the national central banks, and we stand ready to launch the formal preparations as soon as the legal framework has been adopted.

3. A genuine economic and monetary union

Let me now turn to the second topic chosen for our exchange of views, namely a genuine economic and monetary union.

In the spring of this year, after three years of severe economic and financial challenges, it became clear that what the euro area needs is a coherent longer-term vision for EMU. At our April hearing, we discussed such a vision, following earlier discussions in this Committee about the Fiscal Compact and Growth Compact. The vision was then laid out in greater detail for the Heads of State or Government.

Since that time, remarkable progress has been made. The June European Council was an important milestone. Institutional changes that were not conceivable less than a year ago have been put on the EU political agenda or are about to be finalised. The SSM is a prime example of such political momentum.

Last week, the European Council set out further steps towards the completion of EMU. The in-depth discussions of structural reforms and the challenges of competitiveness have been particularly important – and they are reflected in the Council's conclusions.

From an ECB perspective, I see two main priorities for 2013. First, we should improve the functioning of economic union. Excessive imbalances within the euro area have destabilised EMU. This must not be allowed to happen again.

It is encouraging that adjustment is now visibly underway. For example, exports of goods and services have increased by 27% in volume in Spain since 2009 – and by 14% for Ireland, 22% for Portugal and 21% for Italy. These four countries are also experiencing gains in relative unit labour costs.

Economic reforms bear fruit, even if, in the short term, the costs to individual citizens can be considerable. But the reforms are the right path. Governments should persevere.
What can be done at the European level to provide even more support for this process? The proposed 'reform contracts' between euro area Member States and EU institutions are a promising avenue. Combined with a carefully designed framework of targeted and temporary financial support, they should contribute to fostering structural reforms and thereby strengthening competitiveness.
Ideally, the reform contracts should focus on countries with the largest competitiveness challenges. They should identify the structural bottlenecks to improving competitiveness and target the reforms in a way that will remove those bottlenecks. This would establish a clear link between reforms and restoring competitiveness, which is essential for growth and job creation.
Smooth functioning of product and labour markets is a prerequisite for growth and job creation in EMU. I therefore welcome the announcement that next year the European Commission will undertake a systematic review of product and labour markets. For euro area countries the review should allow to assess whether these markets are fully compatible with participation in EMU. Here, product and labour markets must provide for enhanced adjustment capacity to adapt to a changing global economic environment and ensure sustained high levels of employment.
The second priority for 2013 from the ECB's perspective is the completion of financial union with the establishment of a single resolution mechanism. The aim of resolution is to deal with non-viable banks through measures that include their orderly winding down and closure while preserving financial stability. Such a mechanism will make it possible for banks to fail in an orderly manner.
Improving economic union by restoring competitiveness and the functioning of product and labour markets on the one hand, and setting up a single resolution framework on the other hand are key priorities for 2013.
This Committee has always pushed for ambitious European solutions in the field of financial and economic governance. I am confident that you will again play an instrumental role in moving the agenda forward and adopting the relevant legislative proposals. Thank you for your attention. I am now at your disposal for questions.

ANNEX II

Speech by Mr Shiarly, President of the Council (ECOFIN)

General economic situation

Honourable Members of the Parliament,

Ladies and Gentlemen.

I would like to begin with a statement that the European Union remains the largest common market and the euro remains a strong reserve currency even in times of low growth and financial crisis.

According to the recent OECD outlook (September 2012) and the Commission's Autumn Economic forecast (November 2012), the euro area's three largest economies France, Italy and Germany, are shrinking during the second part of the year. Unfortunately, this situation implies weak prospects for reversing quickly the sharp increase in unemployment, particularly youth unemployment that we have been experiencing for few years now. This high unemployment is one of the most worrying aspects of the current economic situation in the European Union.

The persistent crisis in the euro area has adverse effects on business confidence globally. This confidence is particularly weak in EU 17 and strongly impacts the growth prospects. Therefore, it is essential that we find a sustainable solution to the crisis.

Though many EU member states have implemented significant structural reforms over the recent years, several challenges still need to be addressed. We are all aware that gains from structural reforms are large and materialise predominantly in the medium term, generating positive spill-overs for the whole EU economy.

Finally, resolving the euro area banking problems in order to create well functioning credit markets, smart fiscal consolidation and supportive monetary policy seem key to recovery in the EU.

Allow me at this time to briefly outline the main results of last week’s European Council meeting.

The European Council agreed on a roadmap for the completion of the Economic and Monetary Union (EMU), based on deeper integration and reinforced solidarity.

It is imperative to break the vicious circle between banks and sovereigns. Further to the June 2012 euro area Summit statement, and the October 2012 European Council conclusions, an operational framework, should be swiftly agreed in the first semester of 2013, so that when an effective single supervisory mechanism is established, the European Stability Mechanism will, following a regular decision, have the possibility to recapitalise banks directly.

In a context where bank supervision is effectively moved to a single supervisory mechanism, a single resolution mechanism will be required. For this purpose the Commission will submit in 2013 a proposal for a single resolution mechanism for Member States participating in the SSM, to be examined by the co-legislators as a matter of priority with the intention of adopting it during the current parliamentary cycle. It should safeguard financial stability and ensure an effective framework for resolving financial institutions while protecting taxpayers in the context of banking crises.

In order for the EMU to ensure economic growth, competitiveness in the global context and employment in the EU and in particular in the euro area, a number of other important issues will be further examined by the June 2013 European Council. These issues concern the coordination of national reforms, the social dimension of EMU, the feasibility and modalities of mutually agreed contracts for competitiveness and growth, and solidarity mechanisms and measures to promote the deepening of the Single Market and to protect its integrity.

Throughout this process, democratic legitimacy and accountability will be ensured

Further integration of policy making and greater pooling of competences must be accompanied by a commensurate involvement of the European Parliament.

This process can be strengthened by establishing new mechanisms that will increase the level of cooperation between national parliaments and the European Parliament, in line with Article 13 of the (TSCG) (Treaty on Stability, Coordination and Governance) and Protocol No 1 to the Treaties. The European Parliament and national parliaments will determine together the organisation and promotion of a conference of their representatives to discuss EMU related issues.

On Greece: the Eurogroup and subsequently the Council recently agreed to modify the fiscal adjustment path including to extend the deadline for correcting the excessive deficit for Greece by 2 years, until 2016, and, together with the Greek authorities, agreed on measures to address financial needs of Greece for 2013-2016 and measures to reduce its debt burden to a sustainable level by 2020 (124% of GDP).

We welcome these recent developments as well as the positive outcome of the debt buy back operation.

Economic governance - Two pack

I am glad to note that we have almost reached an agreement on the two pack. I like to thank the Rapporteurs and negotiating team for their great effort and sense of compromise which allowed us to almost closed the file. The Gauzes-file is closed - all points agreed. In the Ferreira-file, there is one point open, namely the review-clause, and related to it the declaration by the Commission on the roadmap to deepening EMU.

We would have preferred to close the file completely, but we have to acknowledge that it is very difficult to find common ground on issues such as Eurobonds or the European Debt Redemption Fund Of course, there are also important legal considerations regarding what is feasible on the basis of the current Treaty and what is not. Consequently, last week's European Council concluded that more work is needed on these issues. Therefore, the President of the European Council, in close cooperation with the President of the Commission, and in consultation with the Member States, will present to the June 2013 European Council possible measures and a time-bound roadmap on a number of issues, including solidarity mechanisms. Thus it would be premature to include something in these legislations that prejudges the outcome of this additional consultation that needs to take place.

I hope that the Commission's blueprint published on 28 November, together with the Commission commitment to issue a declaration will bring us to a complete agreement. I also really hope that we can prove for once more that the Community method can work.

Otherwise, I am afraid that the temptation to Member States to proceed with an intergovernmental agreement increases.

SSM

I would like to say some words on the Single Supervisory Mechanism. As you are all aware, the agreement reached during the ECOFIN Council last week did not come easy, after a 5 hour session and the diversity of the issues we needed to address was indeed large.

The agreement respects the five key principles set by the European Council:

1. The clear separation between the ECB monetary policy and supervision functions.
2. Equitable treatment and representation of both euro and non-euro area Member States participating in the SSM.
3. Appropriate accountability measures.
4. The SSM will be based on the highest standards for bank supervision and the ECB will steer the supervision of all credit institutions, in a differentiated way, and carry out direct supervision of the most significant banks in the participating Member States.
5. An acceptable and balanced solution on the voting modalities and decisions taken in the European Banking Authority.

For the Council it has been crucial that the integrity of the Single Market is fully respected in the creation of the Single Supervisory Mechanism. It has also been important to ensure that the creation of the Single Supervisory Mechanism does not alter the balance of the respective competences between the national competent authorities and the EBA.

Now that this part of the road has been cleared, we can jointly work to finalise the foreseen supervisory framework. I am confident that the forthcoming consultations and negotiations on the SSM will lead us to agree on banking supervision of the highest standards. In the light of the developments of recent years, we all agree that this is of paramount importance.

CRD4

In line with the October European Council conclusions, we are also pressing ahead with work on the elements of the single rulebook. This in particular includes the future agreement on the revised capital requirements (CRD IV). During Cyprus Presidency, we have together made considerable progress on this legislative package.

Future negotiations will focus only on a limited number of outstanding aspects. The agreement is within the reach, but there is still work to be done.

Today I will not comment in detail on any on the outstanding issues. The appropriate place for examining these are in the trilogue process.

But let me stress again, and here I think I may be so bold as also to engage my Irish colleague, this is a file to which the Council attach the highest priority. I will recall that the European Council on 13 - 14 December again reiterated the importance of the new rules for the single rule book and called for a rapid adoption.

CRAs 3

I am also happy to note our shared success in reaching the political agreement on the Credit Rating Agencies' Regulation. We started our trilogues in the beginning of our Presidency. The negotiations were demanding, but I am confident that the agreed regulatory framework helps to ensure a more robust and safer environment of the financial services industry.

I would like to highlight in particular the provisions agreed in relation to sovereign debt ratings, reduction of automatic reliance on ratings as well as to the civil liability of the credit rating agencies. All of the aforementioned rules contribute to increased transparency of rating procedures and credit ratings and helps to reduce overreliance on credit ratings in the markets.

Last but not least: I welcome the reach of agreement with European Parliament on Venture Capital Funds and Social Entrepreneurship funds.

Financial Transaction Tax (FTT)

Honourable Members,

On behalf of the Cyprus Presidency, I would like to thank the Parliament for its continuing attention to the issue of the Financial Transaction Tax.

I am very aware of the keen and long-standing interest of this Parliament in this issue. I should also mention the report from Ms Podimata on a common system for taxing financial transactions, which was adopted in May this year, and also the legislative resolution, which was adopted last week.

In June and July the Council has paved the way for the use of the enhanced cooperation procedure, which would allow Member States that have shown a strong support to the principle of introducing a Financial Transactions Tax, to proceed among themselves.

Eleven Member States have chosen to join enhanced cooperation at this stage and at least one more is considering doing so. The Commission has therefore tabled a proposal for the Council decision to authorize the enhanced cooperation.

The Cyprus Presidency has put a lot of work in examining this proposal. I am very thankful to the Parliament that it rapidly addressed this request and granted its consent last week to proceed with enhanced cooperation. Now it will be for the Council to take further steps towards finalisation of its discussions on authorisation of enhanced cooperation.

I thank you for your attention.