



Council of the
European Union

Brussels, 2 June 2017
(OR. en)

9940/17
ADD 2

ECOFIN 491
UEM 185
INST 242

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	1 June 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2017) 291 final ANNEX 2
Subject:	ANNEX to the REFLECTION PAPER ON THE DEEPENING OF THE ECONOMIC AND MONETARY UNION

Delegations will find attached document COM(2017) 291 final ANNEX 2.

Encl.: COM(2017) 291 final ANNEX 2



EUROPEAN
COMMISSION

Brussels, 31.5.2017
COM(2017) 291 final

ANNEX 2

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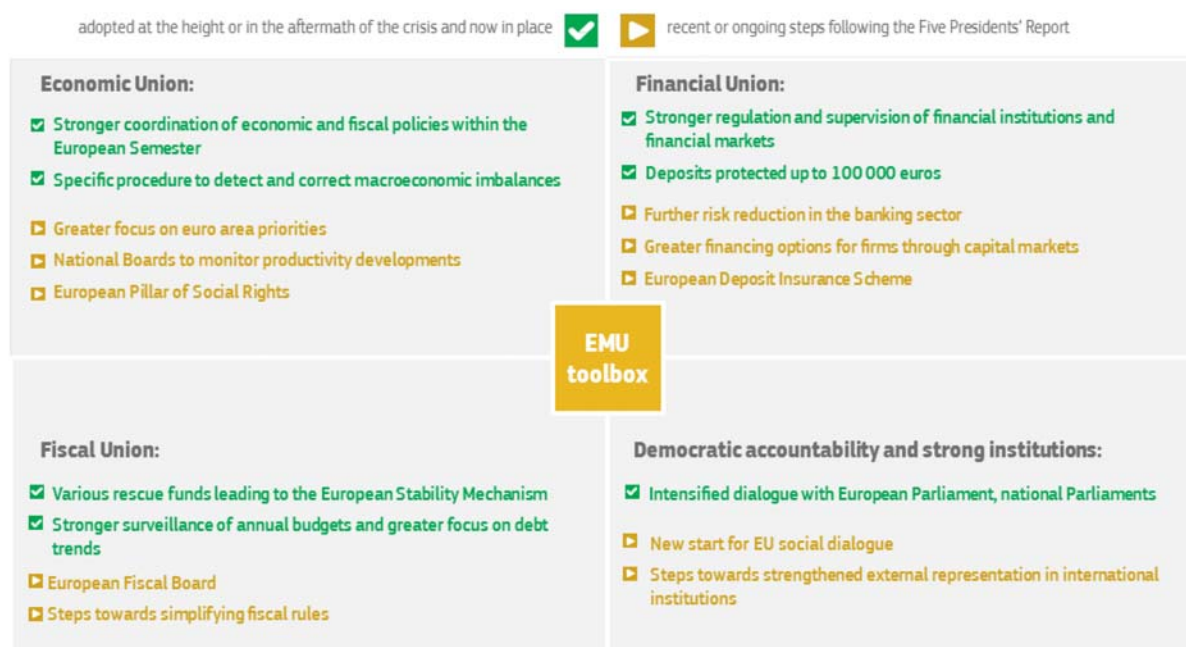
REFLECTION PAPER

ON THE DEEPENING OF THE ECONOMIC AND MONETARY UNION

Annex 2. The toolbox of the Economic and Monetary Union

Learning the lessons from the crisis, the toolbox of the Economic and Monetary Union has been significantly overhauled and strengthened since 2010. Progress has been made on four fronts:

The toolbox of the Economic and Monetary Union today



Source: European Commission

Major steps were taken at the height or in the immediate aftermath of the crisis of 2011-13 to safeguard the integrity of the euro area and consolidate its architecture:

- New rules were introduced to improve the coordination of economic and fiscal policies and ensure a better discussion of such policies at national and European level. For that purpose, an annual cycle of decision-making – the European Semester – was introduced to align EU and national priorities better through closer monitoring and policy guidance. The fiscal rules of the EU, enshrined in the so-called Stability and Growth Pact, were completed through the so-called “six-pack” and “two-pack” legislation, as well as the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) containing the “Fiscal Compact”. They helped to ensure a closer supervision of national budgets, establish sounder fiscal frameworks and pay greater attention to debt levels. These rules also introduced a new procedure – the Macroeconomic Imbalances Procedure. It helps to detect and correct adverse economic developments before they materialise.
- A number of initiatives were pursued to create a safer financial sector for the single market. These initiatives form a so-called “Single Rulebook” for all financial actors in the EU Member States. The Single Rulebook aims to provide a single set of harmonised prudential rules that institutions throughout the EU must respect. The “single rulebook” is also the foundation for the so-called Banking Union. While the Banking Union applies to countries in the euro area, non-euro area countries can also join. As part of the Banking Union, the responsibility for the supervision and resolution of large and cross-border

banks in the EU was placed at the European level. For that purpose, the Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM) were created. Basic rules for the insurance of deposits were harmonised across Member States so that every individual deposit is now fully protected up to EUR 100 000.

- Rescue funds were created to provide financial support for Member States that could no longer borrow on financial markets. This was initially only on a temporary basis via the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The current emergency fund – the European Stability Mechanism (ESM) – now has a permanent character and has a total lending capacity of EUR 500 billion.

Since the current Commission took office in November 2014, and notably after the publication of the Five Presidents' Report of June 2015, a number of further important steps were taken:

- The European Semester of economic policy coordination was revamped. More opportunities are given for Member States and stakeholders (national parliaments, social partners, civil society) to discuss at all levels. Greater attention was given to the challenges of the euro area as a whole, with dedicated recommendations and a closer monitoring of spill-overs. The flexibility within the rules of the Stability and Growth Pact was used in support of reforms and investment, as well as to reflect the economic cycle better.
- Social considerations were put on a par with economic ones, with specific recommendations and new social indicators as part of the European Semester. The Commission also made concrete proposals to create a European Pillar of Social Rights to serve as a compass for a renewed convergence process. Before concluding the new Stability Support Programme for Greece, a dedicated social impact assessment was carried out.
- To inform and support the process of reforms at national level, the Commission proposed, and the Council adopted, a recommendation for euro area Member States to set up advisory National Productivity Boards. The Commission also set up a Structural Reform Support Service to pool expertise from across Europe and provide technical support for those Member States interested.
- As part of the completion of the Banking Union, the Commission proposed a European Deposit Insurance Scheme to be gradually introduced by 2025. This would enable all depositors across the euro area to enjoy the same degree of protection, including in case of large local shocks. It also presented a comprehensive legislative package to reduce risks further and strengthen the resilience of EU financial institutions and the banking sector in particular.
- As part of the work on the Fiscal Union, the Commission and the Council have worked on simplifying existing rules. For instance, they looked at the evolution of the so-called public expenditure benchmark, which governments can control more easily and thus better reflects their intentions. The Commission also called for a greater focus on euro area priorities at the start of each European Semester and a more positive fiscal stance for the

area as a whole. The newly created European Fiscal Board will support the evaluation of the implementation of EU fiscal rules.

- As part of the strengthening of the single market, and as an element of the broader Investment Plan for Europe, several initiatives helped to broaden and improve access to finance for European businesses. They would now benefit from greater access to capital markets – thanks to the so-called Capital Markets Union – whereas they currently mainly rely on bank finance.
- As part of efforts to strengthen existing institutions, the Commission proposed to improve the external representation of the euro area in international financial organisations such as the IMF, with gradual implementation by 2025. Work has yet to start on further steps towards a unified representation. The Commission also supports the efforts of the Eurogroup to ensure greater transparency of its documents and proceedings.