



Eurogroup
The President

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To the members of the Eurogroup

Subject: Eurogroup of 10 July 2017

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 10 July. Our meeting was attended by Vice-President Valdis Dombrovskis and Commissioner Pierre Moscovici, as well as Commissioner Margrethe Vestager for the discussion on recent developments in the banking sector. The ECB was represented by Executive Board Member Benoît Coeuré and the ESM by Managing Director Klaus Regling. We also welcomed Elke König, Chair of the Single Resolution Board (SRB), Danièle Nouy, Chair of the ECB Banking Supervision and Sharon Donnery, Chair of the ECB Banking Supervision working group on non-performing loans (NPLs), for the first two items. Professor Niels Thygesen, Chair of the European Fiscal Board (EFB), and Jeffrey Franks, Director of the IMF Europe Office, joined us for the discussions on the euro area fiscal stance and on the post-programme surveillance of Ireland, respectively.

1. Insolvency frameworks – supervisory practices and legal frameworks related to NPLs – follow-up

We came back to the issue of insolvency frameworks following a first stocktaking of Member States' performances at our meeting in November 2016. The ECB Banking Supervision presented its extended and updated stocktake on national supervisory practices and legal frameworks related to NPLs. We were also informed by the Commission about ongoing work and data gathering with a view to benchmarking. We agreed on the need to better coordinate the work and priorities of Justice and Finance ministers in the field of insolvency frameworks, which could be done both at national and EU level. We agreed to continue discussions on this topic in the Eurogroup, in a consistent manner with the ECOFIN workstream on NPLs.

2. Recent developments in the banking sector

We were debriefed by the Single Resolution Board, the ECB Banking Supervision, the Commission and the Italian Minister on the recent developments in the Italian Banking sector. We welcomed the confirmation from the institutions that all recent decisions were taken in full respect of the European legal framework and that all parties involved cooperated well. We concurred with the institutions that each case is different and has to be assessed individually. We have also exchanged views on possible policy implications, notably on the need to speed up the process of gradually harmonizing insolvency frameworks between countries. Conducting Asset Quality Reviews and Stress Tests in advance of precautionary recapitalisation was considered to be important for future cases. We stressed the need to take steps to avoid mis-selling of certain financial instruments, as well as the need for banks to build up sufficient MREL buffers. We welcomed the planned review of the Bank Recovery and Resolution Directive (BRRD) and the intention of the institutions to carry out a post-mortem assessment of these cases. I concluded that we will have an opportunity to return to those issues in the coming months in the context of the discussions on how to further strengthen the Banking Union.

3. Ireland – post-programme surveillance

We were informed by the Commission and the ECB about the main findings of the 7th post-programme surveillance mission in Ireland, and by the ESM on its early-warning system. The IMF also presented the results of their Article IV consultation. The institutions welcomed the continuing strong economic and fiscal performances and invited Ireland to maintain a prudent fiscal policy to improve the resilience of public finances to shocks. The ESM stated that there were no risks to the repayments of EFSF loans in the short term. The Irish Minister stressed the government's commitment to improve the resilience of the economy and thanked the institutions for their support.

4. The euro area fiscal stance

The Commission and the EFB, whose role it is to advise the Commission, presented their analyses of the euro area fiscal stance and assessed the projected broadly neutral fiscal stance for 2018 to be appropriate. The Commission and the EFB further called for a growth-friendly reorientation of government expenditure towards prioritising investment. The institutions concurred that Member States at risk of not meeting their obligations under the SGP should take additional measures to ensure compliance and that Member States that have outperformed their medium term objectives have been invited to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances. The EFB also discussed the policy-relevance of the fiscal stance concept pointing to the tensions between the aggregate and national perspectives inherent in the

current governance framework. I concluded that there was agreement that a broadly neutral overall stance is appropriate for 2018 and that Member States would take this analysis into account in the preparation of our national budgets in the coming months and in the discussions on the Draft budgetary plans later this year.

5. Follow-up on deepening of the EMU

We held a general discussion on deepening of the Economic and Monetary Union (EMU) on the basis of a presentation by the Commission of its reflection paper published on 31 May. We exchanged views in particular on priorities for the short and medium term. From a political perspective and given the improvement of economic conditions, we agreed that there was a window of opportunity to discuss these topics, in particular on taking steps for the completion of the financial union, while keeping a balance between solidarity and responsibility. We looked forward to the discussions in the informal ECOFIN Council in September.

6. Miscellaneous

Under miscellaneous, and as customary in the Eurogroup when a new government comes into office, the French Minister presented the economic policy priorities of the French government. He stressed the government's commitment to abide by the EU fiscal rules and presented the upcoming reform to improve the flexibility of the labour market.

Yours sincerely,

Jeroen DIJSSELBLOEM