EUROPEAN COMMISSION

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C(2018) 4116 final

Dear President,

The Commission would like to thank the Camera dei Deputati for its Opinions on the Roadmap for deepening the Economic and Monetary Union and its accompanying initiatives {COM(2017) 821-827 final}.

The objective of this package of initiatives is to define a roadmap for action and present concrete measures to move towards the completion of the Economic and Monetary Union, which is one of the top priorities of the Commission.

The Commission is pleased that the Camera dei Deputati supports most of the aims and the substantive content of this package. The Commission has presented the necessary initiatives for the establishment of new budgetary instruments for a stable euro area within the Union's legal framework in May 2018, in the context of the broader discussion of the post-2020 Multiannual Financial Framework. This discussion on this new Framework will be a key opportunity to modernise the Union's public finances to support national reforms and investment.

The Commission also welcomes the Camera dei Deputati's support for the proposal for a Council Regulation on the establishment of the European Monetary Fund and remains hopeful that an agreement between the co-legislators will be reached in the near future.

The Commission takes seriously the concerns expressed by the Camera dei Deputati as regards the proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States {COM(2017) 824 final}. However, the Commission would like to recall that the signatories of the Treaty on Stability, Coordination and Governance in the European Monetary Union, including Italy, committed to take measures to incorporate the substance of this Treaty in Union law by 1 January 2018. By adopting the proposal, the Commission used its right of initiative to allow the Contracting Parties to implement their commitment, which has always been strongly supported by the European Parliament and the Commission. The Commission would also like to point out that the proposal incorporates the Fiscal Compact (i.e. Title III of the Treaty on Stability, Coordination and Governance in the European Monetary Union) into Union law, while

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taking into account the flexibility introduced in the Stability and Growth Pact and reflected in the Council's common position on the flexibility of the Pact.

In response to the more technical suggestions in the Camera dei Deputati's Opinion, the Commission would like to refer to the attached Annex.

The Commission hopes that these clarifications address the issues raised by the Camera dei Deputati and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans *First Vice-President*	*Pierre Moscovici* *Member of the Commission*

Annex

The Commission has carefully considered the suggestions expressed by the Camera dei Deputati in its Opinions and is pleased to offer the following clarifications:

With regard to the Camera dei Deputati's remarks on the Communication on the Roadmap for completing the Economic and Monetary Union {COM(2017) 821 final}, the Commission recalls that the package of proposals presented in December 2017 is a follow up to the Reflection Paper on the Future of the European Monetary Union presented on 31 May 2017 whose aim is to build a clear vision for a deepened European Monetary Union by 2025. In this respect, while the Commission is convinced that all elements mentioned in the Reflection paper are important components of a comprehensive reform of the European Monetary Union, it is also of the opinion that the package of proposals issued in December respect a good sequencing. Hence, a number of elements, to be introduced by 2025, are presented in an open form in order to allow for a wide and fruitful debate to take place among Member States. The roadmap is consistent with the goal of making concrete progress on important elements to make the European Monetary Union more resilient in the short term, with the intention to take a number of important decisions, already by the next June European Council. In addition, a roadmap with clear sequencing is also crucial for the purpose of avoiding that any of the proposals risk undermining financial stability.

In this respect, the Commission agrees that the main short-term priority is to complete the Banking Union as it is indispensable to ensure a resilient European Monetary Union. The Commission also shares the view expressed by the Camera dei Deputati that a European safe asset could help reinforcing integration and financial stability. In this regard, the Commission will further reflect on different options of safe assets to encourage a discussion on the possible introduction and design.

The Camera dei Deputati also expresses concern on the change in the regulatory treatment of sovereign bond. The Commission acknowledges that this is a politically and economically complex issue. Changing the regulatory treatment is another tool discussed to loosen the bank-sovereign loop but which would have important implications for the functioning of the financial system of the euro area, especially if established in conjunction with the introduction of a safe asset. Yet, under all circumstances, and in order to avoid any potential negative impact on financial stability, the Commission is of the opinion that the outstanding elements of the Banking Union and Capital Markets Union need to be completed before any regulatory changes to the treatment of government bonds could be contemplated.

Furthermore, the Commission has proposed introducing new budgetary instruments to help Member States hit by large asymmetric shocks, and to foster the implementation of structural reforms. If agreed, these instruments can be fully operational as of the next Multiannual Financial Framework.

In particular, the reform delivery tool that the Commission is proposing would in fact result in an agreement between Member States and the Commission on a set of structural reforms proposed by national governments. To proceed with incentivising structural reforms already in the short-term, the Commission has proposed a pilot phase for the current Multiannual Financial Framework until 2020, to provide Member States with the opportunity to use, on a voluntary basis, parts of their performance reserve of the European Structural and Investment Funds for the implementation of structural reforms.

Concerning the call for a more ambitious investment policy at European level the Commission would like to emphasize that while the European Plan for Strategic Investment has already mobilised EUR 257 billion, or 82% of its original EUR 315 billion target, in December 2017, the European Parliament and Council adopted the Regulation extending and enhancing the Fund for Strategic Investments. The new Regulation extends the European Fund for Strategic Investments in terms of both duration and financial capacity, targeting the mobilisation of at least half a trillion euros of investments by 2020.

The Commission takes seriously the concerns expressed by the Camera dei Deputati as regards the existing rules on budgetary discipline and a possible revision thereof. The Stability and Growth Pact aims to ensure sound public finances across the Union and, if needed, to correct excessive government deficit and debt levels. The Commission applies the rules of the Pact with the necessary degree of interpretation and institutional discretion, within the limits of the Treaty. As indicated in the Communication on the Roadmap {COM(2017) 821 final}, stronger economic, fiscal and financial integration, together with market discipline, should pave the way for a review of the EU fiscal rules in the longer term, with the aim of a substantial simplification by 2025.

With regard to the Camera dei Deputati's remarks on the Communication on new budgetary instruments for a stable euro area within the Union framework {COM(2017) 822 final}, the proposal to strengthen the Structural Reform Support Programme {COM(2017) 825 final}, and the proposal for targeted changes in the Common Provisions Regulation to mobilise funds in support of national reforms {COM(2017) 826 final}, the Commission would like to make the following comment: The Communication {COM(2017) 822 final} and the Reflection Paper on the deepening of the Economic and Monetary Union have set out the rationale for a Stabilisation Function which would be part of a wider drive to modernise the European Union budget and maximise its impact. On the specific design proposed, the Commission regards an instrument aiming at keeping stable levels of public investment as a more precise version of a general rainy day fund. The Commission has indeed presented a proposal for a European Investment Stabilisation Function on 31 May 2018 (COM(2018) 387 final).

Furthermore, the Commission would like to recall that the Communication of 13 January 2015 on 'Making the best use of flexibility within the existing rules of the Stability and Growth Pact'[1] *provided further guidance on the best possible use of the flexibility that is built into the existing rules of the Pact. Building on this Communication and following extensive discussions between the Commission and Member States, a Commonly Agreed Position on Flexibility was achieved (and endorsed by the ECOFIN Council in February 2016). In particular, the Pact allows Member States implementing major structural reforms to deviate temporarily from their medium-term budgetary objectives or the adjustment path towards them, if those reforms have positive budgetary effects in the long term, including by raising potential growth. The deviation is allowed, provided that the Member State remains under the preventive arm of the Pact, that an appropriate safety margin with respect to the 3% of gross domestic product deficit reference value is preserved and that the Member State is expected to return to the medium-term budgetary objective within the stability/convergence programme horizon. A similar provision exists for some investments regarded as aiming at, ancillary to and economically equivalent to structural reforms. The Commission also published a Communication on the review of the flexibility under the Stability and Growth Pact on 23 May 2018.*[2]

Concerning the remarks made on the Communication on a European Minister of Economy and Finance {COM(2017) 823 final}, the Commission stresses that the European Union budget already plays today a strategic role in supporting Member States to foster convergence, long-term growth and investment. In this regard, the European Minister of Economy and Finance would oversee the use of European Union and euro area budgetary instruments, including the new instruments in support of reforms, macroeconomic stabilisation and convergence. Concerning the stabilisation instrument, the Commission proposal for a European Investment Stabilisation Function of 31 May 2018 indeed foresees that Member States could decide to introduce in the future an insurance mechanism based on voluntary Member States' contributions to complement the EU budget components of the stabilisation function over time. The Minister would endeavour to make sure that all instruments are used coherently and effectively and would constantly seek synergies in their implementation, in close cooperation with the Commissioners responsible and with public authorities at all levels. The Communication also provides that the Eurogroup could agree to elect the Minister as its President for the whole duration of the Commission's mandate. This would be compatible with the Minister's duties as a member of the Commission, representing the general interest, and would not require a Treaty revision. In a more distant perspective, one could foresee to enshrine this practice in a revised Treaty.

[1] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank Making the best use of the flexibility within the existing rules of the Stability and Growth Pact (COM(2015) 12 final).

[2] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank on the review of the flexibility under the Stability and Growth Pact - (COM(2018) 335 final).

Concerning the negative opinion expressed by the Camera dei Deputati on the proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework {COM(2017)824 final}, the Commission would like to stress that the aim of this proposal is to incorporate the substance of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union in the European Union's legal framework in line with the goal set by the Contracting Parties to that Treaty in its Article 16, which provides for taking steps toward such incorporation by 1 January 2018. While some elements of the Treaty on Stability, Coordination and Governance have been incorporated into EU law by the Two-pack Regulation, Regulation (EU) No 473/2013, the fiscal core of the Treaty on Stability, Coordination and Governance, namely the Fiscal Compact, remained largely outside Union law. The Commission would like to point out that the draft Directive incorporates the Fiscal Compact (i.e. Title III of the Treaty on Stability Coordination and Governance in the European Monetary Union) into Union law, while taking into account the flexibility introduced in the Stability and Growth Pact and reflected in the Council's common position on the Stability and Growth Pact flexibility. By putting forward this proposal, the Commission seeks to enable the Contracting Parties of the Treaty on Stability, Coordination and Governance to fulfil their commitment. At the same time, the Commission is of the view that integrating the Fiscal Compact into Union law will streamline the overall governance framework in the euro area and potentially the whole Union and ensure more effective and systematic monitoring of implementation and enforcement of fiscal rules at Union and national level. It would reduce the risk of conflicting requirements created by co-existence of intergovernmental arrangements alongside the Union law. It would also strengthen democratic accountability and legitimacy of the provisions.

Finally, concerning the remark made on the proposal for the establishment of a European Monetary Fund anchored in the Union legal framework {COM(2017) 827 final}, the Commission would like to stress that the proposal on the establishment of the European Monetary Fund will not prevent the European Monetary Fund to use its ability to issue bonds on the primary market, basically continuing with the same issuing practice as the European Stability Mechanism.
