



EUROPEAN COMMISSION

*Brussels, 2.8.2016
C(2016) 4996 final*

Dear Chairman,

The Commission would like to thank the House of Lords for its 'Report on completing Economic and Monetary Union'.

The way ahead to complete Economic and Monetary Union by 2025 has been mapped by the Five Presidents' Report, which was published in June 2015. The report is ambitious, yet pragmatic. Some steps can be implemented immediately and do not require a Treaty change. Others will take more time. In this context, the Commission published in autumn 2015 a package of measures, including a proposal for a European Deposit Insurance Scheme, completing the Banking Union.

The Commission welcomes the House of Lords' active participation in the debate and has taken due note of the views expressed by the House of Lords. Vice-President Dombrovskis was also pleased to have been invited to give evidence to the House of Lords' EU Financial Affairs Sub-Committee in Brussels on 27 January 2016. The main topic of this meeting was the deepening of Economic and Monetary Union and its impact on non-euro area members, focusing on the European semester, National Competitiveness Boards, external representation of the euro area, Banking and Fiscal Union.

The Commission agrees that a stronger Economic and Monetary Union is in the interest of all – both those Member States who use the euro and those who do not – and will help to underpin the stability and prosperity of the EU as a whole. Since not all Member States have adopted the euro as their currency, the process towards a deeper Economic and Monetary Union should be transparent and inclusive and should preserve the integrity of the Single Market.

*Baroness Falkner of Margravine
Chairman of the
European Financial Affairs Sub-Committee
House of Lords
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The Commission takes note of the issues that caught the specific attention of the House of Lords, in particular the ownership of reforms, banking and capital markets union, the fiscal union, and democratic accountability.

With regard to the lack of ownership of the needed reforms, the Commission would like to stress that the aim of the proposed National Competitiveness Boards – endorsed by the Council on 17 June and the European Council on 28 June as National Productivity Boards – will be to contribute to the enhancement of ownership of the necessary policies and reforms at the national level and to improve the knowledge base for policy coordination in the field of productivity and competitiveness. The House of Lords' report doubts the potential effectiveness of such boards in countries that require ambitious structural reform and currently do not have a similar body in operation. The Commission would like to point out that similar bodies have proven very effective in many countries in Europe and elsewhere in terms of providing analytical advice and contributing to building national consensus on necessary reforms. At the same time, the Commission is aware of the risks of administrative burden and therefore does not require or expect the Member States to set up the Boards as new institutions. In fact, many Member States already have in place various bodies, which could, possibly after an adjustment of their mandate, perform the functions of the National Productivity Boards.

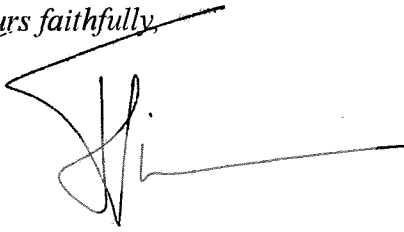
With regard to Banking Union, the House of Lords points to the difficulties in resolving the differences between 'risk reducers' and 'risk sharers'. Completing the Banking Union is an indispensable part of completing Economic and Monetary Union and the Commission believes that the proposal for a European Deposit Insurance Scheme as a risk-sharing mechanism, together with parallel work on the reduction of remaining risks in the banking sector, is a comprehensive, yet balanced, approach. The Commission welcomes the House of Lords' support of the Capital Markets Union initiative.

The House of Lords' report suggests that the definition of 'fiscal union' in the Five Presidents' Report is unclear. Fiscal union, in the meaning of the Five Presidents' Report, refers to a coherent framework for sound and integrated fiscal policies. It rests on two pillars, which are sound and responsible fiscal policies at the national level and a fiscal stabilisation function at the euro area level. Permanent, one-way transfers within Economic and Monetary Union are neither feasible nor desirable. From the experience of the crisis, we have learned that a stabilisation mechanism at the euro area level is necessary to help cushion large economic shocks. This can be designed in a way that does not imply permanent transfers. The Commission fully agrees that democratic oversight is absolutely crucial to build legitimacy and credibility of the stabilisation mechanism.

As regards the way forward, a consultation process has been launched to engage with stakeholders on the more fundamental reforms needed to complete Economic and Monetary Union in stage 2. The outcome of the consultation process and the work of an expert group dedicated to this matter, will inform the preparation of the Commission's White Paper, to be published in spring 2017.

The Commission hopes that the clarifications provided above address the issues raised by the House of Lords.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'FT', with a long horizontal line extending to the right.

*Frans Timmermans
First Vice-President*

A handwritten signature in black ink, appearing to be 'V. D.', with a long horizontal line extending to the right.

*Valdis Dombrovskis
Vice-President*