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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL AND THE EUROPEAN CENTRAL BANK**

On steps towards Completing Economic and Monetary Union

1. INTRODUCTION

The architecture of the Economic and Monetary Union (EMU) has been significantly strengthened over the past years to enhance economic governance and to achieve financial stability. Nevertheless, the EMU's resilience needs to be further reinforced in order to re-launch a process of upward convergence, both between Member States and within societies, with increasing productivity, job creation and social fairness at its core.

In June 2015, the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank and the President of the European Parliament presented a report on an ambitious yet pragmatic roadmap for completing the EMU¹. This Five Presidents' Report makes the point that progress is necessary on four fronts in parallel. Firstly, towards a genuine Economic Union that ensures each economy has the structural features to prosper within the Monetary Union. Secondly, towards a Financial Union that guarantees the integrity of the currency across the Monetary Union by limiting risk to financial stability and increasing risk-sharing with the private sector. Thirdly, towards a Fiscal Union that delivers both fiscal sustainability and fiscal stabilisation. And finally, towards a Political Union that provides the foundation for all of the above through genuine democratic accountability, legitimacy and institutional strengthening.

The Five Presidents also agreed on a roadmap² for implementation that should consolidate the euro area by early 2017 (Stage 1 – "deepening by doing"). In this first stage, which started on 1 July 2015³, action would build on existing instruments, also by making the best possible use of the existing Treaties. Then, on the basis of benchmarks for a renewed upward convergence of the euro area economies, more fundamental reforms should be undertaken, moving to a medium- to long-term vision for new growth perspectives (Stage 2 – "completing EMU"). Overall, translating the Five Presidents' report into action requires a shared sense of purpose among all euro area Member States and EU institutions. The actions set out in this Communication apply to euro area Member States, but the process towards a deeper EMU is open to all EU countries. At the same time, the Commission will make sure that no distortions occur in the single market.

This Communication and its accompanying proposals take forward key elements of Stage 1 of the process to deepen EMU. The package of measures includes a revised approach to the European Semester; an improved toolbox of economic governance, including the introduction of national Competitiveness Boards and an advisory European Fiscal Board; a more unified representation of the euro area in international organisations, notably the International Monetary Fund; and steps towards a Financial Union, notably via a European Deposit Insurance Scheme. These measures will be complemented by steps taken with the European

¹ Completing Europe's Economic and Monetary Union, Report by Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015.

² See Annex 1 of the Report.

³ http://europa.eu/rapid/press-release_IP-15-5294_en.htm.

Parliament to improve democratic accountability of the European economic governance system.

2. A REVAMPED EUROPEAN SEMESTER

Economic policy coordination in the EMU has been significantly bolstered during the economic and financial crisis. In order to overcome pre-crisis imbalances, structural weaknesses and the legacy of the crisis, and to boost investment and rebuild medium-term growth potential, these common rules, procedures and institutions at EU level play a central role.

The European Semester, the annual cycle for the coordination of economic policies at EU level introduced in 2011, has become an important vehicle for delivering reforms at national and EU level. Yet, Member States should make more progress on implementing country-specific recommendations, given that implementation has so far been uneven and often only limited.

Over the years, the process has been continuously improved, to capitalise on its strengths and to address its weaknesses. Most recently, the new Commission has used its first European Semester in 2015 to substantially streamline the exercise. The publication of the Country Reports already in February created more space for genuine dialogue with the Member States, allowing for deeper debate at bilateral and multilateral level, as well as with other stakeholders. This earlier timing also requires adapting the role of National Reform Programmes which should become an instrument for Member States to respond to the Commission analysis by presenting forward-looking policy initiatives. More time for reflection and debate was also created by the earlier publication of the Commission proposals for country-specific recommendations in May. Here, the Commission introduced greater focus by significantly decreasing the number of recommendations, only covering key priority issues of macro-economic and social relevance that require Member States' attention in the following twelve to eighteen months. While this focus must be maintained, the Country Reports will continue to take a more holistic approach, covering a broader range of topics with economic relevance for the Member States.

The stability and implementation of this improved structure is key to reaping the full benefits in the coming period. At the same time, and building on these developments, some further adjustments can bring additional benefits. This notably includes better integrating the euro area and national dimensions, a stronger focus on employment and social performance, promoting convergence by benchmarking and pursuing best practices, and the support to reforms from European Structural and Investment Funds and technical assistance. Table 1 provides a graphical overview of the proposed 2016 European Semester.

2.1. Better integrating the euro area and national dimensions

Given the deeper interdependence of euro area countries and the higher potential for spill-over effects among countries which share the single currency, enhanced coordination and stronger

surveillance of the budgetary processes and economic policies of all euro area Member States is necessary. The lesson learned from the crisis is twofold: first, inadequate national fiscal and economic policies and financial supervision can cause huge economic and social hardship; second, the euro area as a whole is not immune to the risks of large and destabilising economic and financial shocks. Hence, while sound national policies would go a long way to reduce the chances of a crisis, there is also a case to monitor and analyse closely the aggregate fiscal, economic and social situation of the euro area as a whole, and consider this analysis in the formulation of national policies.

Already now, the European Semester includes an overall euro area dimension, in particular in the annual assessment of Draft Budgetary Plans of euro area Member States and the resulting overall fiscal stance in the euro area, as well as in the euro area recommendations. The process is about setting priorities together and acting on them with a euro area perspective. However, this process is still based on a strong country-by-country approach, and only takes into account the overall euro area dimension in an indirect way. The European Semester should be structured so that discussions and recommendations about the euro area take place first, ahead of country-specific discussions, so that common challenges are fully reflected in country-specific actions.

The Commission will therefore, as part of its Annual Growth Survey to be published in November, put specific focus on the key fiscal, economic, social and financial priorities for the euro area as a whole. In particular, the Commission calls for a specific Eurogroup discussion on the euro area fiscal stance in the context of its assessment of Draft Budgetary Plans. This may also require bringing the publication of the recommendation for the euro area forward.

Discussions on euro area priorities should take place within the Council and the Eurogroup, as well as with the European Parliament. The ensuing common understanding will then provide orientations for the content of National Reform and Stability Programmes of euro area Member States in April and the respective country-specific recommendations in May.

2.2. A stronger focus on employment and social performance

The Commission has already taken steps to enhance the focus on employment and social issues in the context of the European Semester and the process of deepening of EMU. The 2015 Country Reports discussed employment and social developments in detail. Country-specific recommendations in these fields were addressed to most Member States.

Employment and social aspects are being further emphasised also in the Macroeconomic Imbalances Procedure. The Commission proposed earlier in 2015 to add three indicators (activity rate, youth unemployment, long-term unemployment) to the existing 11 headline indicators of the Macroeconomic Imbalances Procedure scoreboard. This would serve the purpose of qualifying the social and employment context in which the adjustment is taking

place, ultimately feeding through into better policy design. The Commission is planning to use the extended list of headline indicators as of the 2016 Alert Mechanism Report.

Greater attention is also given to the social fairness of new macroeconomic adjustment programmes to ensure that the adjustment is spread equitably and to protect the most vulnerable in society. The Commission prepared for the first time a social impact assessment for the Memorandum of Understanding for Greece.⁴ It intends to continue this practice in case of any future stability support programme.

A number of further steps should be taken to achieve stronger focus on Member States' employment and social performance. Member States should pay greater attention to the contribution of national social partners, in particular to strengthen ownership of reform efforts. To this end, the Commission encourages stronger involvement of social partners in the elaboration of National Reform Programmes. In addition, Commission representations in the Member States will consult national social partners at pre-defined key milestones of the Semester. These steps would be complemented by strengthened dialogue with social partners during European Semester missions. Moreover, the involvement of EU-level social partners will be continued and possibly enhanced, for instance through a renewed Tripartite Social Summit and Macroeconomic Dialogue, to strengthen their contributions to the Semester process.

Convergence towards best practices in the employment and social policy field should contribute to a better functioning and legitimacy of the EMU project. In the short term, such upward convergence could be achieved through the development of common benchmarks along the components of the '*flexicurity*' concept, such as flexible and reliable labour contracts that avoid a two-tier labour market, comprehensive lifelong learning strategies, effective policies to help the unemployed re-enter the labour market, modern and inclusive social protection and education systems and enabling labour taxation. The Commission also confirmed its intention to put forward a European pillar of social rights, which would build on the existing "acquis" and serve as a compass for the overall convergence process.

2.3. Promoting convergence by benchmarking and pursuing best practices

The Five Presidents' report emphasises the use of benchmarking and cross-examining performance in order to achieve convergence and reach similarly resilient economic structures throughout the euro area. Cross-examination aims to identify underperformance and support convergence towards best performers in areas of labour markets, competitiveness, business environment and public administrations, as well as certain aspects of tax policy. Benchmarking can contribute to enhancing ownership of the Member States' structural reform agendas and foster their implementation.

⁴ See document at: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/assessment_social_impact_en.pdf.

As the ongoing benchmarking exercises in the Eurogroup (e.g. on the tax wedge on labour) have shown, benchmarking, if appropriately used, can be a truly powerful lever for action. In particular, benchmark indicators need to meet two requirements. First, they need to closely relate to the policy levers, such that they can lead to actual and meaningful policy implications. Second, there needs to be robust evidence and enough consensus that they contribute significantly to higher level objectives such as jobs, growth, competitiveness, social inclusion and fairness or financial stability.⁵

The availability of such indicators, their statistical reliability, complexity and the extent to which they capture the full reality can vary significantly by policy area. As a consequence, the implementation of the benchmarking exercise should leave room for tailor-made adjustments by policy area. Furthermore, benchmarking needs to be complemented by economic analysis, which allows for reflection on potential trade-offs across policy areas and for in-depth evaluation of policy impacts.

Starting with the 2016 European Semester, the Commission will progressively suggest benchmarks and cross-examination exercises across policy or thematic areas. These will feed into debates in the appropriate Council formations and the Eurogroup, with a view to fostering a common understanding of challenges and policy responses.

The outcome of the discussions and evaluations will inform the European Semester and will pave the way to strengthening convergence of policies also in view of Stage 2.

2.4. More focused support to reforms through EU funds and technical assistance

To support structural reforms in line with the common economic priorities set at EU level, the Commission will seek to enhance the use of the European Structural and Investment Funds in support of key priorities highlighted in the country-specific recommendations, including through the use of the measures linking effectiveness of these Funds to sound economic governance.⁶ The new legal framework requires that programmes co-financed by ESI Funds address all relevant country-specific recommendations. The Commission will monitor and report progress towards the agreed objectives by 2017. The reform of Cohesion Policy in 2013 has introduced the principle of so-called macroeconomic conditionality to all five European Structural and Investment Funds. This is part of the broader effort to ensure that

⁵ Examples of such meaningful indicators include the market entry and exit of firms, unemployment rates (e.g. youth and long-term unemployment) and educational attainment. These have been shown to be related to economic growth, productivity, innovation, employment and fairness. At the same time, they point to concrete policy levers that should be considered to improve performance. These include, for the mentioned examples, actions that impact on the ease of doing business, measures impacting on labour demand and supply such as the activation component of unemployment benefits and the labour tax wedge, and improving access to education.

⁶ Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

European Structural and Investment Funds are used to support reforms identified to be of key importance for social and economic performance in the Member States, and to ensure that the effectiveness of the European Structural and Investment Funds is not undermined by unsound macroeconomic policies.⁷

At the same time, reform implementation will be supported through other EU funding programmes in their policy fields and the progressive roll-out of technical assistance offers by the Commission's Structural Reform Support Service. The Commission has established this Service in order to make technical support available upon request to all Member States for the preparation and effective implementation of reforms in the context of the economic governance processes (notably the implementation of country-specific recommendations, actions under the Macroeconomic Imbalances Procedure, or reforms under stability support programmes), including through support for the efficient and effective use of EU Funds.

3. IMPROVING THE TOOLBOX OF ECONOMIC GOVERNANCE

In the wake of the economic and financial crisis, the economic governance framework has been considerably strengthened with the introduction of the Six-Pack, Two-Pack and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)⁸. The reinforced fiscal rules as well as the recently created Macroeconomic Imbalances Procedure have significantly deepened and widened the scope and possible effectiveness of EU action.

A first review of the strengthened economic governance framework⁹ identified some areas for improvement, notably concerning transparency, complexity and predictability of policy making, which are relevant to the effectiveness of the tools. The short experience with the operation of the new instruments, some of which entered into force only recently, limits the possibility to draw firm conclusions on their impact on growth, imbalances and convergence.

More evidence and experience with the reformed governance structures are necessary before embarking on further legislative reform. At the current juncture, the Commission will pursue the full and transparent application of the available instruments and tools. In parallel, the

⁷ In the first strand, the Commission may request amendments to Member States' Partnership Agreements and programme governing the use of EU Funds in order to support the implementation of Council recommendations or to maximise the impact of European Structural and Investment Funds in the Member States receiving financial assistance from the EU. If a Member State fails to undertake such amendments, the Commission may propose to the Council to suspend the payments of the programmes concerned. In the second strand, the Commission must propose to suspend the commitments or payments when a Member State fails to take corrective action under the economic governance procedures, e.g. the Excessive Deficit Procedure and/or the Excessive Imbalances Procedure or a stability support programme.

⁸ Six-Pack: Regulations (EU) n° 1173/2011; 1174/2011; 1175/2011; 1176/2011; 1177/2011; Directive 2011/85/EU; Two-Pack: Regulations (EU) n° 472/2013; 473/2013; TSCG: <http://www.consilium.europa.eu/en/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/>. The fiscal part of the TSCG is also referred to as "Fiscal Compact".

⁹ Economic governance review, Report on the application of Regulations (EU) n° 1173/2011; 1174/2011; 1175/2011; 1176/2011; 1177/2011; 472/2013; 473/2013; COM(2014) 905, 28.11.2014.

Commission intends to improve clarity and reduce the complexity of the existing framework, from the fiscal rules to the application of the Macroeconomic Imbalances Procedure. Moreover, as indicated in the Five Presidents' report, the Commission supports the introduction of a system of national Competitiveness Boards and the establishment of an advisory European Fiscal Board.

3.1. Improving transparency and reducing complexity of the current fiscal rules

With the aim of improving transparency of the way it applies the rules of the Stability and Growth Pact, the Commission has published a "Vade mecum on the Stability and Growth Pact"¹⁰. The Vade mecum will be updated annually to timely reflect changes in the evolution of the rules and surveillance practice. Furthermore, the Commission is sharing with Member States the data and calculations underlying its surveillance decisions. It also intends to share the same information with national fiscal councils and – after consultation with the Member States – with the public. The new independent advisory European Fiscal Board (see section 3.4) will contribute to increasing transparency. The Commission will also start presenting an update of the full set of external economic assumptions in September, to inform the formulation of national Draft Budgetary Plans.

The way the rules are implemented can be simplified and made more transparent, without changing their legal basis. The Commission will aim for the following clarifications, in close consultation with the Member States.

First, the Commission will ensure the consistency of methodology between the debt rule of the Excessive Deficit Procedure and Member States' structural budgetary target, known as the Medium Term Budgetary Objectives. The recent strengthening of economic governance has translated the debt criterion of the Excessive Deficit Procedure into a simple rule for the reduction of government debt in excess of 60% of GDP. What role the rule should play when deciding whether to place a Member State in EDP has however remained unclarified. When updating the lower limits for the Medium Term Budgetary Objectives that Member States can set, the Commission will ensure the consistency of such values with the respect of the debt rule in the medium-term.

Second, the Commission will aim to streamline the methodology for assessing compliance with the Stability and Growth Pact. Currently, as a result of discussion with Member States over the years, different sets of budgetary indicators are used to assess the compliance of fiscal policies for Member States under the preventive arm of the Stability and Growth Pact and in the Excessive Deficit Procedure. A harmonised and consistent approach would bring greater simplicity and allow for a more consistent transition from the corrective to the preventive regime of the Stability and Growth Pact. The Commission will thus explore ways for increasing reliance on a single practical indicator of compliance with the Stability and Growth Pact.

Third, the Commission will explore the possibility of updating multi-year Council recommendations to reduce excessive deficits in order to take into account not only conditions

¹⁰ http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp151_en.pdf.

of unforeseen deterioration of the economic environment – as it is explicitly envisaged in the Stability and Growth Pact –, but also in case of unforeseen improvements. Such an approach would support the objective of the Excessive Deficit Procedure to ensure a timely correction of excessive deficit situations.

Finally, the Commission is reviewing the transposition of the rules set out in the so-called Fiscal Compact (i.e. the fiscal part of the Treaty on Stability Coordination and Governance in the EMU), which are designed to strengthen the consistency between the national and European fiscal frameworks and enhance their ownership in Member States. The Commission has undertaken an analysis of the incorporation of the Fiscal Compact into national law in line with Article 3(2) TSCG. It has engaged in preliminary consultations with Contracting Parties, with a view to giving them, where necessary, the opportunity to submit their observations on the Commission's findings as foreseen in Article 8(1) TSCG and then publishing its report on the incorporation pursuant to that Article.

3.2. A stronger Macroeconomic Imbalances Procedure

The Macroeconomic Imbalances Procedure has been instrumental in bringing the key issues on imbalance to the forefront in the economic surveillance and has been effective in supporting effective policy adjustment in some countries (for example in Spain and Slovenia). Nevertheless, experience suggests that implementation can be improved in a number of ways.

First, the transparency of the Commission's decisions within the Macroeconomic Imbalances Procedure will be enhanced by a publication of a "Compendium", which will collect and present the relevant information on the implementation of the Macroeconomic Imbalances Procedure in one place. Also, the findings of the In-Depth Reviews will be presented in a clearer way both in the Country Reports and in the Communication presenting conclusions from the In-Depth Reviews. The Commission will also present explicit justification of decisions taken, including regarding country-specific recommendations linked to the Macroeconomic Imbalances Procedure.

Second, the Commission will ensure appropriate follow-up to the identification of excessive imbalances. This requires economic judgement and active engagement with Member States to tackle their specific challenges and ensure domestic ownership of reforms. So far, the Commission placed Member States with imbalances in different categories which evolved over time, and, depending on the nature and intensity of the imbalances, called for different degrees of monitoring and policy action. The Excessive Imbalances Procedure has not been invoked yet. The Commission will stabilise the categories, clarify the criteria guiding its decision, and better explain the link between the nature of imbalances and how they are addressed in the country-specific recommendations. The Commission will engage with Member States, including with the new Competitiveness Boards,¹¹ on how best to address the imbalances and put in place a strong and time-bound system of specific monitoring to support implementation. The Excessive Imbalances Procedure can be opened in case of insufficient

¹¹ See section 3.3.

commitment to reforms and lack of effective progress in implementation, and will be used in case of severe macroeconomic imbalances that jeopardise the proper functioning of the economic and monetary union, like those that led to the crises. The Commission will also invite greater Council involvement in the specific monitoring of countries with excessive imbalances for which the Excessive Imbalances Procedure is not activated.

Third, the euro area dimension of the Macroeconomic Imbalances Procedure will be enhanced. Euro area considerations will be better integrated in related documents (the Alert Mechanism Report and the Communication on the In-Depth Reviews findings) and decisions. The Macroeconomic Imbalances Procedure will continue to deal with the correction of harmful external deficits as well as with fostering adequate reforms in countries accumulating large and sustained current account surpluses.

3.3. A system of national Competitiveness Boards

Competitiveness is essential for resilience and adjustment capacity inside the monetary union and to ensure sustainable growth and convergence looking forward. To foster progress with structural reforms in the competitiveness domain, the existing EU mechanisms for economic policy coordination need to be backed by strong national ownership of reform agendas. It makes sense to raise independent policy expertise at national level and to reinforce the policy dialogue between the EU and the Member States. Therefore, the Commission proposes that the Council recommends Member States to establish national Competitiveness Boards in charge of tracking performance and policies in the field of competitiveness.

Competitiveness Boards would help to improve national policymaking by providing independent expertise notably on assessing competitiveness performance and competitiveness-related reforms. They would thus contribute to effective reform design and implementation, including in response to country-specific recommendations. The scope of competitiveness aspects to be monitored should reflect a comprehensive notion of competitiveness, including price and non-price developments. Competitiveness Boards would compile and publish their findings on the areas monitored on an annual basis.

Competitiveness Boards should conform to a set of common principles, taking into account the diversity of experiences and practices in Member States. The Boards' advice should inform the wage setting processes, but their aim is neither to interfere with the wage setting process and the role of the social partners, nor to harmonise national wage setting systems. The Boards should be independent from public authorities dealing with related matters and have the capacity to ensure high-quality economic analysis. Provided that these requirements are met, Member States should be free to design their national Competitiveness Boards, either by setting up new institutions or adapting the mandate of existing bodies.

The Commission adopts together with this Communication a Recommendation for a Council Recommendation on the establishment of national Competitiveness Boards. It is addressed to the euro area Member States, but the other Member States are also encouraged to set up

similar bodies. The Commission will monitor the follow-up to the Recommendation and, if necessary in Stage 2, will present common principles by means of a binding instrument.

3.4. An advisory European Fiscal Board

The past years have underscored the importance of conducting responsible fiscal policies as a key pillar of the European growth strategy. Fiscal policies should foster macroeconomic stability in line with the rule-based fiscal framework. The conduct of responsible national fiscal policies is especially important in the euro area.

Together with this Communication, the Commission establishes an independent advisory European Fiscal Board. This Board will contribute in an advisory capacity to multilateral surveillance in the euro area. It will be composed of five renowned experts with credible competence and experience in macroeconomics and practical budgetary policy-making. The Board's advice will rely on an economic judgment that is consistent with EU fiscal rules.

The Board should provide an evaluation of the implementation of the EU fiscal framework, in particular regarding the horizontal consistency of the decisions and implementation of budgetary surveillance, cases of particularly serious non-compliance with the rules, and the appropriateness of the actual fiscal stance at euro area and national level.

As the Stability and Growth Pact centres on national budget balances and debt developments and does not determine the aggregate fiscal stance, the Board should also contribute to a more informed discussion of the overall implications of budgetary policies at euro area and national level, with a view to achieving an appropriate fiscal stance for the euro area. Where it identifies risks jeopardising the proper functioning of the Economic and Monetary Union, the Board shall accompany its advice with a specific consideration of the policy options available under the Stability and Growth Pact.

The Board will also cooperate with the national fiscal councils, aiming at exchanging best practices and facilitating common understandings. This will be undertaken in direct connection to the Board's tasks and in mutual respect of the prerogatives and legal grounding of the national fiscal councils and the European Fiscal Board.

4. THE EXTERNAL REPRESENTATION OF THE EURO

In order to complete EMU, greater responsibility and integration at EU and euro area level must go hand in hand with institutional strengthening. One of the areas where concrete steps towards this objective are explicitly foreseen in the Treaty and can therefore be taken already today is the external representation of the euro area.

The economic and financial weight of the euro area and the existence of a single monetary and exchange rate policy have made euro area policy decisions and economic developments increasingly relevant for the world economy. While the strengthened governance framework for the euro area and the strong convergence of financial sector regulation and supervision in the context of the Banking Union have made the euro area internally more robust.

The progress that has been achieved on further internal integration of the euro area also needs to be projected externally, to allow the euro area to play a more active role in international financial institutions and to shape effectively its future role in the global financial architecture. A more coherent representation would also be to the benefit of third countries, in particular by means of a stronger and more consistent euro area contribution to global economic and financial stability.

Considerable progress has been made in strengthening the Union and the euro area external representation in many international economic and financial fora. In the International Monetary Fund, this included further strengthening of coordination arrangements in 2007, the election of a President of the group of EU representatives to the International Monetary Fund (so-called EURIMF), the improvement of the working relationship between the Sub-Committee on the International Monetary Fund of the Economic and Financial Committee (EFC/SCIMF) and the EURIMF, and the increased coordination among EURIMF members on Executive Board strategies. However, further steps are needed to achieve a truly unified external representation.

Accompanying this Communication, the Commission is presenting a Communication showing the way towards an increasingly unified external representation of the EMU.¹² It also puts forward a proposal for a Council Decision under Article 138 TFEU laying down measures in view of establishing a unified representation of the euro area in the International Monetary Fund.¹³ External representation of the euro area is still particularly fragmented in the International Monetary Fund, which through its lending instruments and surveillance is a key institutional actor in global economic governance. Such arrangements should be set out and agreed without delay, but implemented gradually, to allow all actors involved – at EU and international level – to make the necessary legal and institutional adjustments.

Taking into account the future development of the EMU or in the international financial architecture, the Commission may decide that further initiatives are useful to strengthen euro area external representation in also other international fora.

5. STEPS TOWARDS A FINANCIAL UNION

Besides progress in the areas of economic governance, completing the Banking Union is an indispensable step on the way towards a full and deep EMU. For the single currency, a unified and fully integrated financial system is the prerequisite not only for the proper transmission of monetary policy, but also for an adequate risk diversification across countries and general confidence in the banking system across the euro area. Important steps have been agreed in that direction in recent years, but further work is necessary.

First, the Commission will work with Member States to fully implement the agreed legal provisions. The Single Supervisory Mechanism aimed at independent and uniformly high

¹² See COM(2015)602 of 21 October 2015.

¹³ See COM(2015)603 of 21 October 2015.

quality prudential supervision is already fully operational, and the Single Resolution Mechanism will ensure effective resolution of troubled banks as of 1 January 2016. The Commission will make full use of its powers under the Treaty to ensure the full transposition of the Bank Recovery and Resolution Directive (the deadline was January 2015)¹⁴ and the Deposit Guarantee Directive (the deadline was July 2015)¹⁵ into national law by all Member States as soon as possible. Member States are urged to ratify the Intergovernmental Agreement on the Single Resolution Mechanism by 30 November 2015.¹⁶

Second, the Commission encourages Member States to find a swift agreement on an effective bridge financing mechanism, to ensure that, while the Single Resolution Fund is gradually being built up through levies raised from the banking sector, the Single Resolution Mechanism has sufficient resources at its disposal to finance possible residual resolution costs for troubled banks, in accordance with the Bank Recovery and Resolution Directive. In the same vein, Member States should agree swiftly on a common backstop for the Single Resolution Fund which should be fiscally neutral over the medium term.

Third, the Commission will make a legislative proposal before the end of the year on the first steps towards a common European Deposit Insurance Scheme with a view to creating a more European system, disconnected from the sovereign, so that financial stability is enhanced and citizens can be certain that the safety of their deposits does not depend on their geographical location.

The first step towards a more common system will build on a "re-insurance" approach. A joint reinsurance fund – supplemental to existing national Deposit Guarantee Schemes – would contribute under certain conditions when national Deposit Guarantee Schemes are called upon. These conditions should be designed to limit the liability for the fund and reduce moral hazard at the national level, and should reflect the fact that national funds are gradually being built up and different starting points successively being aligned. The European Deposit Insurance Scheme would be mandatory for euro area Member States and open to non-euro area Member States willing to join the Banking Union.

Fourth, in parallel with its proposal on the European Deposit Insurance Scheme, the Commission is committed to further reduce risks and ensure a level playing field in the banking sector and limit the bank-sovereign loop. To this end, it will set out how work can be

¹⁴On 19th October 2015, the Bank Recovery and Resolution Directive had not yet, or only partially been transposed by 12 Member States: Czech Republic, Luxembourg, Poland, Romania, Sweden, Italy, Lithuania, Belgium, Cyprus, the Netherlands, Spain, and Slovenia.

¹⁵ On 19th October 2015, the Deposit Guarantee Directive had not yet, or only partially been transposed by 18 Member States: Czech Republic, Spain, France, Slovakia, Belgium, Estonia, Ireland, Greece, Italy, Cyprus, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Romania, Slovenia, and Sweden.

¹⁶ On 19th October 2015, the Intergovernmental Agreement had not yet been ratified or the instruments of ratification had not yet been deposited by 13 Member States: Austria, Belgium, Estonia, Germany, Greece, Ireland, Italy, Lithuania, Luxembourg, Malta, The Netherlands, Portugal, and Slovenia.

brought forward in those outstanding areas where the regulatory and prudential framework may need to be reviewed and completed to achieve these objectives.

Finally, alongside the completion of the Banking Union, the Capital Markets Union is a key priority. On 30 September, the Commission published the Capital Markets Union Action Plan, inter alia aiming to ensuring more diversified sources of finance for companies and strengthened cross-border risk-sharing through deepening integration of bond and equity markets.

6. EFFECTIVE DEMOCRATIC LEGITIMACY, OWNERSHIP AND ACCOUNTABILITY

Effective democratic legitimacy and accountability are crucial for strengthening the ownership in Stage 1 of the deepening of EMU and is indispensable in Stage 2, when the envisaged initiatives involve more pooling of sovereignty. In recent years, the Commission has gradually established a deeper and more permanent dialogue with the Member States through bilateral meetings, more targeted discussion in the Council and more widespread technical and political missions to the capitals. The Commission will continue to intensify these dialogues, also by making use of its network of European Semester Officers in the Member States.

First practical steps have been initiated by the European Parliament to strengthen parliamentary oversight as part of the European Semester. ‘Economic dialogues’ between the European Parliament and the Council, the Commission and the Eurogroup have taken place in line with the provisions of the ‘Six-Pack’ and ‘Two-Pack’ legislation. This has already been part of the last European Semester rounds. These dialogues may be enhanced by agreeing on dedicated time-slots during the main steps of the Semester cycle. A new form of inter-parliamentary cooperation was established to bring together European and national actors. This takes place within the European Parliamentary Week organised by the European Parliament in cooperation with national Parliaments, which includes representatives from national Parliaments for in-depth discussions on policy priorities. The ‘Two-Pack’ also enshrined the right for a national Parliament to convene a Commissioner for a presentation of the Commission’s opinion on a draft budgetary plan or of its recommendation to a Member State in Excessive Deficit Procedure.

The timing and added value of these parliamentary moments could be further strengthened, in line with the renewed European Semester. In particular, the Commission could engage with the European Parliament at a plenary debate before the Annual Growth Survey is presented, and continue the debate following its adoption. Moreover, a second dedicated plenary debate could be held upon presentation by the Commission of the Country-Specific Recommendations, in accordance with the relevant provisions of the ‘Six-Pack’ on economic dialogue. At the same time, Commission and Council representatives could participate in inter-parliamentary meetings in particular in the context of the European Parliamentary Week.

This new practice could be progressively agreed upon in more detail between the EU institutions in full respect of their respective institutional role.

The Commission will also work out model arrangements to make the interaction with national Parliaments more efficient. Such interaction should apply to national parliamentary debates both on the Country-Specific Recommendations addressed to the Member State and within the annual national budgetary procedure. That would give more life to the right recognised in the 'Two-Pack' to convene a Commissioner. As a rule, national Parliaments should be closely involved in the adoption of National Reform and Stability Programmes.

7. COMPLETING EMU: PREPARING FOR STAGE 2

The steps presented in this Communication for Stage 1 of completing EMU, build on existing instruments and make the best possible use of the existing Treaties. However, all these initiatives of Stage 1 should not be seen in isolation, but rather as stepping stones towards the next stage, starting as of 2017. In Stage 2, more far-reaching measures should be agreed upon to complete the EMU's economic and institutional architecture. This will involve sharing more sovereignty and solidarity and will have to be accompanied by strengthened democratic oversight.

To prepare the transition from Stage 1 to Stage 2 of completing the EMU, the Commission will present a White Paper in spring 2017, building on the progress made in Stage 1 and outlining the next steps needed to complete the EMU in Stage 2. The White Paper will be prepared in consultation with the Presidents of the other EU institutions.

2016 will be crucial in preparing this White Paper, building on the three following strands:

- First, all EU institutions and Member States should agree and take action on the measures presented in this Communication. In particular, it would be important that the Competitiveness Boards and the European Fiscal Board become operational by mid-2016.
- Second, it is key to consult and engage with citizens, stakeholders, social partners, European and national Parliaments, Member States, regional and local authorities on completing EMU in Stage 2. With a view to stimulate this necessary broad-based debate across Europe, the Commission will facilitate a wide consultation, including public debates in 2016. The consultation should be broad-based, transparent and inclusive and allow citizens to give their views.
- Finally, the Commission will establish in mid-2016 an Expert Group to explore the legal, economic and political preconditions that will inform the more long-term proposals as outlined in the Five Presidents' Report.

The implementation of Stage 1, the outcome of the consultation and the work of the expert group should contribute to shaping a consensus for more fundamental steps ahead. This input

will feed into the White Paper, which should eventually – following further discussion – be translated into a stronger legislative and institutional framework for the EMU.

8. CONCLUSION

This Communication substantiates the different steps under Stage 1 that the Five Presidents had outlined in their report on "Completing Europe's Economic and Monetary Union". These steps are ambitious and pragmatic. Following the principle of "deepening by doing", the proposed measures build on existing instruments and make the best possible use of the existing Treaties.

The presented initiatives will help to boost competitiveness and economic and social convergence, with the aim of further improving the Economic Union. The Fiscal Union is fostered via achieving and maintaining responsible fiscal policies at national and EU level. The initiatives will also help to further increase the efficiency and stability of financial markets and to complete the Financial Union. Finally, the Political Union is supported by enhancing democratic accountability and national ownership.

All of these elements are important in themselves, but they are also interdependent. They thus need to be tackled in parallel. As a whole, the Stage 1 initiatives will further bolster the resilience of the EMU. They are also an important step in stimulating the convergence necessary to move on to Stage 2 of the process of completing a deep and genuine EMU.

The Commission calls on all the actors involved to ensure that the process to deepen EMU is swiftly implemented. Only continued ambition and concerted action can ensure that the EMU not only survives but thrives, and regains its path towards strong, sustainable and inclusive growth and job creation.

TABLE 1: TIMELINE OF THE EUROPEAN SEMESTER 2016

