



European
Commission

Economic & Monetary Union

Main Legal Texts
& Policy Documents
for Further Strengthening of
the Economic and Monetary Union
2018

Part 2
Policy documents & legislative proposals
setting out steps towards a stronger
Economic and Monetary Union

LEGAL TEXTS



Economic and
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European Commission
Directorate-General for Economic and Financial Affairs

Economic and Monetary Union

Main Legal Texts and Policy Documents
for Further Strengthening of the Economic and Monetary Union

2018

**PART 2: Policy documents and legislative proposals setting out steps
towards a stronger Economic and Monetary Union**



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PART 2:

Policy documents and legislative proposals
setting out steps towards a stronger
Economic and Monetary Union

1. DOCUMENTS FRAMING THE DEEPENING AGENDA FOR THE ECONOMIC AND MONETARY UNION

PREPARING FOR NEXT STEPS ON BETTER ECONOMIC GOVERNANCE IN THE EURO AREA¹

ANALYTICAL NOTE

Introduction

The Euro Summit of 24 October 2014 concluded that "closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union". It called for work to continue "to develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity"; and it invited the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup and the President of the European Central Bank, "to prepare next steps on better economic governance in the euro area."

The European Council of 18 December 2014 confirmed the mandate given to the Four Presidents. As a first step, the Four Presidents were asked to produce an Analytical Note to serve as the basis of a discussion at the informal European Council on 12 February 2015.

The present Analytical Note takes stock of the current state of Economic and Monetary Union (EMU). It identifies the main shortcomings of the EMU framework that were revealed by the crisis, describes the measures taken so far to address them and prepares the ground for a discussion about the next steps. Nothing in this note prejudices the final content of the Four Presidents' Report, which will be drafted in the light of the outcome of the discussion between Heads of State and Government on 12 February and further work and consultations ahead of the European Council in June.

¹ *Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem and Mario Draghi. Informal European Council, 12 February 2015.*

1. The nature of Economic and Monetary Union

The euro is a currency shared today by 19 EU Member States and more than 330 million citizens. In spite of the crisis, it is the second most important currency in the world, with a 24.4% (1999: 18%) share in global foreign exchange reserves, compared to the U.S. Dollar's 61.2 % share. Globally, 59 countries and territories have either directly or indirectly pegged their currency to the euro.

The euro is more than a currency. It is also a political project. Our monetary union requires Member States give up their previous national currencies once and for all and permanently share monetary sovereignty with the other euro area countries. The euro has thus created a "community of destiny" between the 19 Member States that share the euro as their currency; this requires both solidarity in times of crisis and respect by all for commonly agreed rules.

The euro area has a unique institutional setup. While monetary policy is decided jointly at European level, economic and fiscal policies remain, to a large extent, in the Member States' remit. In such a setup, vulnerabilities in one Member State can become vulnerabilities for the euro area as a whole. Economic success is therefore in everyone's common interest. A monetary union will only be successful if being inside monetary union brings, over time, more benefits as compared to staying outside. For this, all Member States have to take ownership by considering their economic and fiscal policies as a matter of common concern.

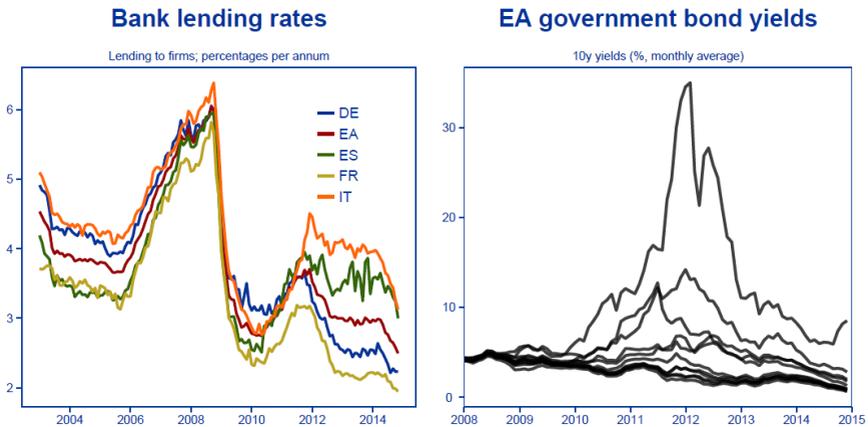
The Treaties set out a clear set of goals - inclusive and sustainable growth, price stability, sound fiscal positions and high levels of employment -, and the EMU framework foresees a set of common rules to coordinate these policies closely. The crisis has shown that if there are weaknesses in the framework or if it is not sufficiently implemented, the integrity of the euro area as a whole is at stake and the objectives stipulated by the Treaties cannot be attained. It is for this reason that making sure the EMU framework is fully compatible with the requirements of sharing a common currency was the key challenge faced in recent years and remains a hurdle that has not yet been fully overcome.

2. Looking back: the manifold roots of the crisis

The crisis that started to hit the euro area as of summer 2007 and which continues to impact the economic development of several euro area members until today, had many roots and origins. While several of them are common to all industrialised countries, some of them are more strongly present in the euro area where they prolonged and intensified the effects of the crisis.

At the onset, the crisis was primarily a financial crisis. It originated in the U.S. subprime market and spread rapidly across the globally interconnected financial system, including to European banks and other financial institutions, notably in euro area countries where the good times of the first decade of the euro had led to financial and housing bubbles. A feature of particular relevance to the euro area was the negative feedback loop between bank and government sovereign debt: as banks that had become too systemic to fail got into financial difficulties and turned to their sovereign for help, the stability of the banking system could only be guaranteed to the detriment of the public finances of the countries concerned and at the cost of increased financial fragmentation (see Chart 1). Thus, in these countries, a crisis of banks quickly became a crisis of public finances, with a direct impact on the real economy.

Chart 1

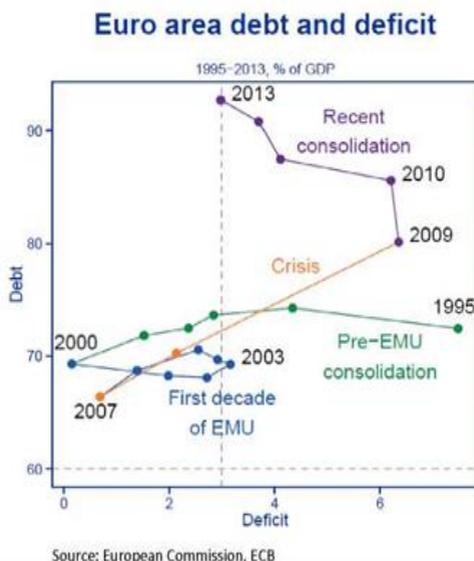


Source: ECB, Reuters, ECB Staff calculations

The crisis then turned into a sovereign debt crisis. The first decade of the euro had not led to a sustainable reduction of public debts and deficits below the reference values of 3 % and 60 % of GDP required by the Maastricht Treaty. Government debt in the euro area, which had stood at 72.8 % of GDP in 1998, could only be reduced to 66.2 % of GDP on average in 2007, even though mostly benign macroeconomic conditions would have allowed for stronger fiscal consolidation. Deficits in the euro area stood on average at 1.9 % of GDP in the period from 1999 to 2007, peaking at 3.1 % of GDP in 2003. The common policy objective of national budgets which are in balance or in surplus - meant to reduce public debt levels - could not be reached. The fiscal rules meant to contain excessive public deficits (the so-called "Stability and Growth Pact") were often not respected and not implemented.

Since 1997, most euro area countries (all except Estonia and Luxembourg) were once or even repeatedly subject to an excessive deficit procedure. In 2003, the rules of the Pact were partly suspended by a qualified majority in the Council in the specific case of excessive deficit procedures against Germany and France. In 2005, the Pact was reformed in a manner widely perceived as a weakening of the rules. Both moves undermined the credibility of the Pact. When the crisis started to impact the euro area, its Member States reacted with important stimulus packages and injections of public money into their banking systems, which, while necessary to safeguard financial stability and soften the impact of the crisis, in many countries increased public debt and deficit well beyond the Maastricht reference values. Public deficits in the euro area peaked at 6.2 % of GDP in 2010 before they could be reduced to 2.6 % of GDP in 2014. While public debt continues to increase as a result of the measures taken during the crisis, in 2014, it stood at 94.3 % of GDP on average in the euro area, way above pre-crisis levels (see Chart 2).

Chart 2

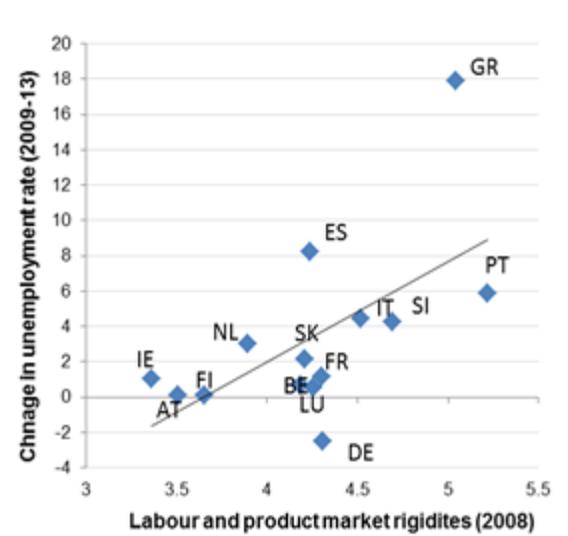


The crisis in the euro area, triggered by the global financial turmoil, can also be said to have been a competitiveness crisis, with several weaknesses predating the crisis. While there had been some catching up with the U.S. in terms of productivity until the 1990s, this process has stopped over time. Several euro area countries did not use the boom period to tackle existing rigidities in product and labour markets.

By contrast, deep-rooted vulnerabilities did not allow the supply side to catch-up with demand. At the same time, significant nominal and real rigidities prevented an efficient allocation of resources, including between the tradable and non-tradable sectors, and thereby hampered the functioning of the competitiveness channel (see Chart 3).

Against this background, during the first decade of the euro, the cost of labour (measured in unit labour costs) grew significantly in a number of euro area countries, making their products more expensive, thereby reducing their competitiveness and leading to a negative balance of payments vis-à-vis other euro area countries which had kept labour unit cost stable or even lowered them.

Chart 3: Rigidities in product and labour market and changes in the unemployment rate (2009-13)



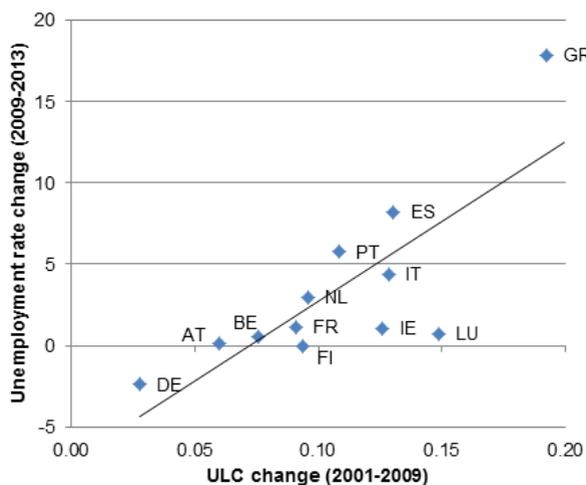
Source: Eurostat and OECD: Note: labour and product market rigidities measured as average of employment protection legislation and product market regulator OECD indicators.

This brought about higher unemployment rates during the crisis (see Chart 4). In addition, the relatively favourable financing conditions in the first years of the euro led to a misallocation of sources of financing towards less productive forms of investment, such as real estate, and to a greater risk-taking and indebtedness of many private and public actors. When the crisis hit the euro area and markets reappraised the risk and growth potential of individual countries, the loss of competitiveness became visible and led to outflows of sources of finance strongly needed for investment, thereby further intensifying the impact of the crisis in these countries. While several stakeholders at the

European level had warned about such developments, the governance framework at the time did not provide for a systematic detection and correction of imbalances and hence it could not prevent their build-up.

Last but not least, the crisis can also be said to be a crisis of markets in terms of their capacity to price country risk correctly. While the Maastricht Treaty was based on the assumption that market discipline would be a key element in preventing a divergent development of the euro area economies and their fiscal positions, with increasing government bond interest rates having a signalling effect, this was not the reality of the euro area from 1999 to 2008. Instead, investors treated the euro area as one, without taking into account diverging economic and financial risks. The crisis made these divergences transparent; the ensuing reappraisal of risks then led to bond interest rates for certain euro area countries which were well above those of certain developing countries (see Chart 1).

Chart 4: Changes in Unit Labour Costs (2001-09) and in the unemployment rate (2009-13)



Source: Eurostat; Note: Data shown for euro area countries that have joined the EMU before 2002; for unemployment rate September data is used.

All of these developments showed that there was a significant gap between the objectives and the actual performance of the pre-crisis governance framework of EMU, as well as a persistent failure to comply with and implement commonly agreed policies.

3. Measures taken since 2010 to strengthen the resilience of Economic and Monetary Union

The crisis has revealed that significant structural weaknesses and rigidities and unsustainable fiscal and economic policies in some Member States can undermine the economic development the euro area as a whole and thereby put the benefits of being inside EMU at risk. It has also uncovered major shortcomings of the governance framework, which was not able to prevent these developments.

At euro area level, significant reforms have been adopted since 2010 with a view to addressing and remedying these deficiencies:

- The European Stability Mechanism (ESM) was created as a permanent crisis mechanism tool that had not been available before the crisis.
- Banking Union was established, with the ECB taking up the role of the Single Supervisory Mechanism, directly supervising all significant banks in the euro area since 1 November 2014. The Single Resolution Mechanism and the new bail-in rules of the EU Bank Recovery and Resolution Directive now provide a framework for the orderly resolution of banks and for burden-sharing between shareholders and creditors. These steps, coupled with the Single Resolution Fund, are important contributions to reducing the detrimental sovereign-bank nexus and to protecting, alongside harmonised national deposit-guarantee schemes, depositors.
- The new Macroeconomic Imbalance Procedure (MIP) is now in place to detect the development of macroeconomic vulnerabilities early on and provide instruments to correct them.
- The reform of the "Stability and Growth Pact" in 2011/2013 and the agreement on the "Fiscal Compact" reinforced the fiscal framework in order to prevent the building up of large fiscal imbalances in the future. The monitoring of expenditure developments became more important under the preventive arm and the procedures in the preventive and corrective arm were strengthened – not least by new, earlier and gradually increasing sanctions. One major lesson from the crisis was the need to introduce a numerical debt benchmark aiming to ensure convergence towards sound debt ratios, below the Maastricht reference value of 60 % of GDP. The introduction of the reverse qualified majority voting modalities (RQMV) in the Council for decisions under the excessive deficit procedure was intended to increase the quasi-automaticity of the procedures.
- Eurostat powers were strengthened in 2011 with regard to statistical data used for the excessive deficit procedure. Under the amended regulation, today

Eurostat is entitled to examine Member States' public accounts and to make on-the-spot investigations in the Member State concerned.

These are important steps which would likely have improved the euro area's performance considerably, both before and during the crisis, had they already been in place a decade ago. Nonetheless, these new structures will only be effective if fully implemented both at EU and national level.

4. Where do we stand now?

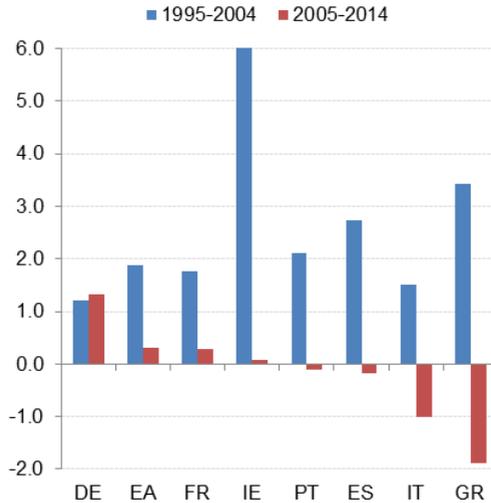
Although a significant adjustment of fiscal and economic imbalances has started, in particular in countries under EU/IMF financial assistance and other more vulnerable euro area countries, the legacy of accumulated imbalances remains painfully visible: unemployment rates have soared and public and private sector debt increased very significantly in just a few years. Unemployment in the euro area has been above 10 % since 2009 and stood at 11.6 % in 2014, up from 7.5 % in 2007. Youth unemployment in the euro area even stands at 23 % (up from 16.6 % in 2007).

High indebtedness and unemployment and the still significant obstacles to flexible markets, hamper countries' growth potential (see Chart 5). Moreover, while high debt usually has a negative effect on growth (see Chart 6), low growth and low inflation also make it difficult for a country to reduce its indebtedness, with the aim of increasing resilience and sustainability. In this context, some of the highly indebted euro area countries with low rates of potential output growth may find it particularly difficult to reduce their debt levels quickly. Increased shock resilience and higher potential growth demand further action in terms of national structural reforms.

According to international indicators of labour and product market flexibility, euro area countries still exhibit significant rigidities which need to be tackled. Moreover, national governments need to create an environment which is favourable for entrepreneurs wanting to start a new firm or for existing firms to grow. International indicators suggest that there is significant scope for improvement in the euro area: currently, when looking at its overall position in the world, the euro area ranks far behind the UK and the U.S. on average.

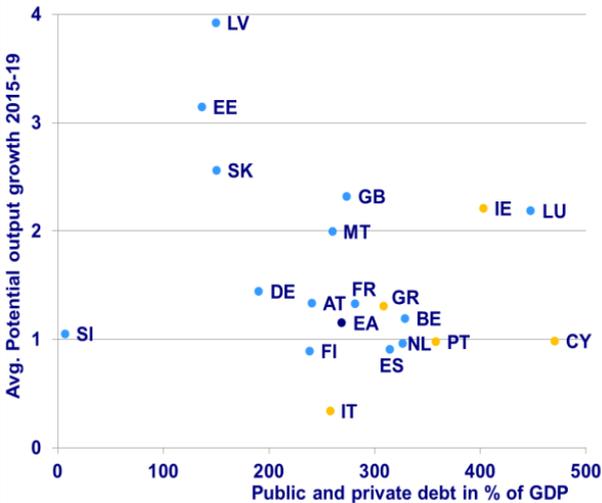
In the World Bank rankings on the ease of doing business, there is only one euro area country (Finland) in the top 10, and several countries are not even in the top 50. Measures to improve this are not only in the best interest of each Member State – because of the strong links between Member States' economies – but they are also in the interest of the euro area as a whole.

Chart 5: Real GDP per capita (average growth)



Source: European Commission

Chart 6: Average potential growth vs. public and private debt



Source: European Commission, Eurostat Note: Last observation refers to June 2014 for public and private sector debt and 2019 for potential output.

5. Looking forward: towards a deep and genuine Economic and Monetary Union

In view of the current weak economic environment in the euro area as a whole and the remaining vulnerabilities and rigidities in a number of individual countries, there is a need to move gradually towards "concrete mechanisms for stronger economic policy coordination, convergence and solidarity". Such mechanisms should be based on the reality of the economic, employment and social situation of euro area Member States, the nature of the interdependency which exists between them, and their capacity to converge over time.

In the short run, it is important to implement a consistent strategy around the "virtuous triangle" of structural reforms, investment and fiscal responsibility and in this context move towards more effective commitments to growth-enhancing structural reforms in the euro area. The policy commitments of euro area countries, made individually or collectively, to growth-enhancing structural reforms have not been implemented satisfactorily. Often, commitments are strong in crisis times and then weakened again when the overall economic climate has improved. In this sense, the stabilising effect of the single currency has certain counterproductive effects with regard to the willingness of national governments to start and implement the necessary structural reforms with decisiveness, though these would be urgently needed. A renewed political consensus at the highest political level is necessary to proceed with those structural reforms which should be tackled as a priority across the euro area.

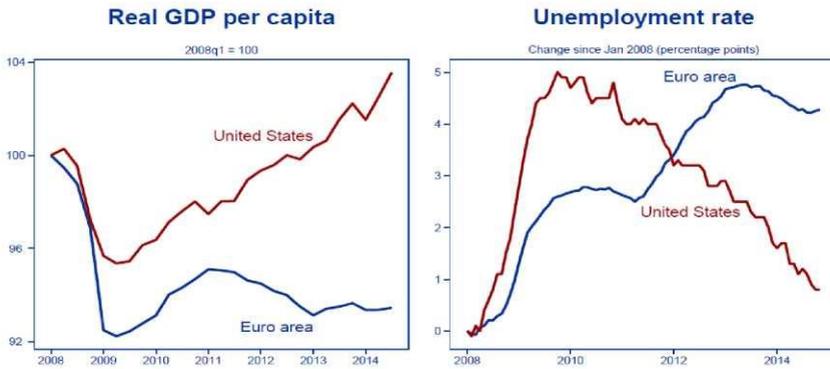
Moreover, the functioning of the Single Market needs to be improved, in particular in areas that are vital to increase the adjustment capacity of the euro area economies. Enhancing labour mobility is key in this respect. In addition, to complement Banking Union and diversify and extend sources of financing of the European economy, we need to address remaining barriers to investment and the free movement of capital and make capital market integration a political priority, including by considering issues like taxation, insolvency and company law. A well-integrated financial system in the EU, as a result of a Capital Markets Union, can make a monetary union more resilient against shocks by providing an element of private risk-sharing, and more efficient when it comes to generating jobs, growth and investment. Further initiatives to complete the Single Market, for example, in the areas of the digital economy and energy, are essential to strengthen growth prospects.

Tangible progress on these two blocks – growth-enhancing structural reforms and deepening the Single Market – will contribute to the smooth functioning of Economic and Monetary Union in the short term (within the next 18 months), provided that they receive strong political backing.

However, it remains necessary, for citizens and markets alike, to develop a long-term perspective on how the framework of EMU should develop, where it could be

considered complete, and where further work will be necessary to develop stronger common governance, as already called for by the 2012 Four Presidents' Report and by the Commission's Blueprint, which both remain valid. The euro area has not recovered from the crisis in the same way as the U.S., which might point to the fact that an incomplete monetary union adjusts much slower than one with a more complete institutional setup in place (see Chart 7).

Chart 7



Source: Eurostat

In this respect, this Analytical Note is intended to start a discussion process that will feed into a forward-looking report by the Four Presidents, in the preparation of which all Member States will be closely involved² and which could in particular address the following questions:

- How can we ensure sound fiscal and economic positions in all euro area Member States?
- How could a better implementation and enforcement of the economic and fiscal governance framework be ensured?
- Is the current governance framework – if fully implemented – sufficient to make the euro area shock-resilient and prosperous in the long run?
- To what extent can the framework of EMU mainly rely on strong rules and to what extent are strong common institutions also required?

² The President of the European Commission has indicated his intention to draw on input from the President of the European Parliament in his reflections during the preparation of the report.

- What instruments are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray?
- Has the fiscal-financial nexus been sufficiently dealt with in order to prevent the repetition of negative feedback loops between banks and sovereign debt?
- How could private risk-sharing through financial markets in the euro area be enhanced to ensure a better absorption of asymmetric shocks?
- To what extent is the present sharing of sovereignty adequate to meet the economic, financial and fiscal framework requirements of the common currency?
- Is a further risk-sharing in the fiscal realm desirable? What would be the preconditions?
- Under which conditions and in which form could a stronger common governance over structural reforms be envisaged? How could it foster real convergence?
- How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?

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

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Introduction

The Euro Summit of October 2014 underlined the fact that ‘closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union’ (EMU). It called for work to continue to ‘develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity’ and ‘to prepare next steps on better economic governance in the euro area’.

This report has been prepared by 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.

It has benefited from intense discussion with Member States and civil society. It builds on the report ‘Towards a Genuine Economic and Monetary Union’ (the so-called ‘Four Presidents’ Report’), on the Commission’s ‘Blueprint for a Deep and Genuine EMU’ of 2012, which remain essential references for completing EMU as well as on the Analytical Note ‘Preparing for Next Steps on Better Economic Governance in the Euro Area’ of 12 February 2015.

This report reflects the personal deliberations and discussions of the five Presidents. It focuses on the euro area, as countries that share a currency face specific common challenges, interests and responsibilities. The process towards a deeper EMU is nonetheless open to all EU Members. It should be transparent and preserve the integrity of the Single Market in all its aspects. In fact, completing and fully exploiting the Single Market in goods and services, digital, energy and capital markets should be part of a stronger boost towards economic union, as well as more jobs and higher growth.

A complete EMU is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for future global challenges and to enable each of its members to prosper.

1. The Nature of a Deep, Genuine and Fair Economic and Monetary Union

The euro is a successful and stable currency. It is shared by 19 EU Member States and more than 330 million citizens. It has provided its members with price stability and shielded them against external instability. Despite the recent crisis, it remains the second most important currency in the world, with a share of almost a quarter of global foreign exchange reserves, and with almost sixty countries and territories around the world either directly or indirectly pegging their currency to it.

Europe is emerging from the worst financial and economic crisis in seven decades. The challenges of recent years forced national governments and EU institutions to take quick and extraordinary steps. They needed to stabilise their economies and to protect

all that has been achieved through the gradual and at times painstaking process of European integration. As a result, the integrity of the euro area as a whole has been preserved and the internal market remains strong.

However, as economic growth and confidence return to much of Europe, it is clear that the quick fixes of recent years need to be turned into a lasting, fair and democratically legitimate basis for the future. It is also clear that, with 18 million unemployed in the euro area, a lot more needs to be done to improve economic policies.

Europe's Economic and Monetary Union (EMU) today is like a house that was built over decades but only partially finished. When the storm hit, its walls and roof had to be stabilised quickly. It is now high time to reinforce its foundations and turn it into what EMU was meant to be: a place of prosperity based on balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress. To achieve this, we will need to take further steps to complete EMU.

The euro is more than just a currency. It is a political and economic project. All members of our Monetary Union have given up their previous national currencies once and for all and permanently share monetary sovereignty with the other euro area countries. In return, countries gain the benefits of using a credible and stable currency within a large, competitive and powerful single market. This common destiny requires solidarity in times of crisis and respect for commonly agreed rules from all members.

However, this bargain only works as long as all members gain from it. For this condition to hold, countries have to take steps, both individually and collectively, to compensate for the national adjustment tools they give up on entry. They must be able, first, to better prevent crises through high quality governance at European and national level, sustainable fiscal and economic policies, and fair and efficient public administrations. Second, when economic shocks occur, as they inevitably will, each country has to be able to respond effectively.

They must be able to absorb shocks internally through having suitably resilient economies and sufficient fiscal buffers over the economic cycle. This is because, with monetary policy set uniformly for the whole euro area, national fiscal policies are vital to stabilise the economy whenever a local shock occurs. And with all countries sharing a single exchange rate, they need flexible economies that can react quickly to downturns. Otherwise they risk that recessions leave deep and permanent scars.

Yet relative price adjustment will never occur as quickly as exchange rate adjustment. And we have seen that market pressures can deprive countries of their fiscal stabilisers in a slump. For all economies to be permanently better off inside the euro area, they also need to be able to share the impact of shocks through risk-sharing within the EMU. In the short term, this risk-sharing can be achieved through integrated financial and

capital markets (private risk-sharing) combined with the necessary common backstops, i.e. a last resort financial safety net, to the Banking Union. In the medium term, as economic structures converge towards the best standards in Europe, public risk-sharing should be enhanced through a mechanism of fiscal stabilisation for the euro area as a whole.

Preventing unsustainable policies and absorbing shocks individually and collectively did not work well before or during the crisis. Though several important institutional improvements have since been made, the legacy of the initial shortcomings persists. There is now significant divergence across the euro area. In some countries, unemployment is at record lows, while in others it is at record highs; in some, fiscal policy can be used counter-cyclical[^], in others fiscal space will take years of consolidation to recover.

Today's divergence creates fragility for the whole Union. We must correct this divergence and embark on a new convergence process. The success of Monetary Union anywhere depends on its success everywhere. Moreover, in an increasingly globalised world, Member States have a responsibility and self-interest to maintain sound policies and to embark on reforms that make their economies more flexible and competitive.

Progress must happen on four fronts: first, towards a genuine Economic Union that ensures each economy has the structural features to prosper within the Monetary Union. Second, towards a Financial Union that guarantees the integrity of our currency across the Monetary Union and increases risk-sharing with the private sector. This means completing the Banking Union and accelerating the Capital Markets Union. Third, 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.

All four Unions depend on each other. Therefore, they must develop in parallel and all euro area Member States must participate in all Unions. In each case, progress will have to follow a sequence of short- and longer-term steps, but it is vital to establish and agree the full sequence today. The measures in the short term will only increase confidence now if they are the start of a larger process, a bridge towards a complete and genuine EMU. After many years of crisis, governments and institutions must demonstrate to citizens and markets that the euro area will do more than just survive. They need to see that it will thrive.

This longer-term vision needs the measures in the short term to be ambitious. They need to stabilise the European house now and prepare the ground for a complete architecture in the medium term. This will inevitably involve sharing more sovereignty over time.

In spite of the undeniable importance of economic and fiscal rules and respect for them, the world's second largest economy cannot be managed through rule-based cooperation alone. For the euro area to gradually evolve towards a genuine Economic and Monetary Union, it will need to shift from a system of rules and guidelines for national economic policy-making to a system of further sovereignty sharing within common institutions, most of which already exist and can progressively fulfil this task. In practice, this would require Member States to accept increasingly joint decision-making on elements of their respective national budgets and economic policies. Upon completion of a successful process of economic convergence and financial integration, this would pave the way for some degree of public risk sharing, which would at the same time have to be accompanied by stronger democratic participation and accountability both at national and European levels. Such a stage-based approach is necessary as some of the more ambitious measures require changes to our current EU legal framework - some more profound than others - as well as significant progress in terms of economic convergence and regulatory harmonisation across euro area Member States.

The aim of this report is two-fold: to lay out the first steps that will launch this process today, and to provide a clear orientation for the longer-term measures.

The process would be organised in two consecutive stages (see Roadmap in Annex 1):

- Stage 1 (1 July 2015 - 30 June 2017): In this first stage ('deepening by doing'), the EU institutions and euro area Member States would build on existing instruments and make the best possible use of the existing Treaties. In a nutshell, this entails boosting competitiveness and structural convergence, completing the Financial Union, achieving and maintaining responsible fiscal policies at national and euro area level, and enhancing democratic accountability.
- Stage 2: In this second stage ('completing EMU'), concrete measures of a more far-reaching nature would be agreed to complete EMU's economic and institutional architecture. Specifically, during this second stage, the convergence process would be made more binding through a set of commonly agreed benchmarks for convergence that could be given a legal nature. Significant progress towards these standards - and continued adherence to them once they are reached would be among the conditions for each euro area Member State to participate in a shock absorption mechanism for the euro area during this second stage.

Final Stage (at the latest by 2025): At the end of Stage 2, and once all the steps are fully in place, a deep and genuine EMU would provide a stable and prosperous place for all citizens of the EU Member States that share the single currency, attractive for other EU Member States to join if they are ready to do so.

The Presidents of the EU institutions will follow up on the implementation of the recommendations in this report. To prepare the transition from Stage 1 to Stage 2, the Commission will present a White Paper in spring 2017 assessing progress made in Stage 1 and outlining the next steps needed, including measures of a legal nature to complete EMU in Stage 2. The White Paper will draw on analytical input from an expert consultation group, which will further explore the legal, economic and political preconditions of the more long term proposals contained in this report. It will be prepared in consultation with the Presidents of the other EU institutions.

This report puts forward ideas which, following further discussion, can be translated into laws and institutions. This requires a broad, transparent and inclusive process - a process which should begin without delay.

2. Towards Economic Union - Convergence, Prosperity and Social Cohesion

The notion of convergence is at the heart of our Economic Union: convergence between Member States towards the highest levels of prosperity; and convergence within European societies, to nurture our unique European model.

In EMU, monetary policy is centralised, but important parts of economic policy remain national. However, as the crisis made particularly visible, euro area members depend on each other for their growth. It is in each member's common and self-interest to be able to cushion economic shocks well, to modernise economic structures and welfare systems, and make sure that citizens and businesses can adapt to, and benefit from, new demands, trends and challenges. It is equally in each member's interest that all others do so at a similar speed. This is crucial in a Monetary Union like EMU where large scale fiscal transfers between members are not foreseen and where labour mobility is relatively limited.

This does not mean that all Member States that share the single currency are or should be alike, or that they should follow the same policies. What ultimately matters is the outcome: that all euro area Member States pursue sound policies so that they can rebound quickly from short-term shocks, are able to exploit their comparative advantages within the Single Market and attract investment, thereby sustaining high levels of growth and employment.

Much can be achieved already through a deepening of the Single Market, which is important for all 28 EU Member States but in particular for the Member States which share the euro as their currency. In significant policy areas, such as goods and services, as well as in areas with untapped potential, such as energy, digital and capital markets, the Single Market is still incomplete. This shows that there are significant political obstacles despite the enormous economic potential associated with a truly Single Market. In order to make progress, relevant decisions in each of the areas should be

seen as part of a political package which benefits all Member States, instead of being conceived as independent from each other. But that alone is not enough. Sustainable convergence also requires a broader set of policies that come under the heading of 'structural reforms', i.e. reforms geared at modernising economies to achieve more growth and jobs. That means both more efficient labour and product markets and stronger public institutions.

For convergence to happen between euro area members, further progress is required. First, in the short term (Stage 1), we need to set in motion a renewed effort for all to converge towards the best performance and practices in Europe, building upon and further strengthening the current governance framework. The ultimate aim is to achieve similarly resilient economic structures throughout the euro area. This should lead to a new boost for jobs and growth with competitiveness and social cohesion at its core.

In Stage 2, this convergence process would be formalised and would be based on a set of commonly agreed standards with a legal character. Significant progress towards the latter would be regularly monitored and would be a condition for members to benefit from further instruments, such as a shock absorption mechanism to be set up for the euro area as a whole.

2.1. A new boost to convergence, jobs and growth

A renewed impetus for reform is in the spirit of the 2011 Euro Plus Pact on Stronger Economic Policy Coordination for Competitiveness and Convergence, which, however, largely failed to deliver the expected results in view of its intergovernmental, non-binding nature³. Instead of further 'pacts', concrete progress on the basis of EU law is needed to move towards an Economic Union of convergence, growth and jobs. It should rest on the following four pillars: the creation of a euro area system of Competitiveness Authorities; a strengthened implementation of the Macroeconomic Imbalance Procedure; a greater focus on employment and social performance; and on stronger coordination of economic policies within a revamped European Semester. This should be implemented in the short run (Stage 1), on the basis of practical steps and in line with the Community method.

A euro area system of Competitiveness Authorities

Euro area governance is well established for the coordination and surveillance of fiscal policies. It needs to be improved in the broader and increasingly central field of 'competitiveness'. The European Semester - and the creation of the Macroeconomic

³ The 'Euro Plus Pact on Stronger Economic Policy Coordination for Competitiveness and Convergence' was agreed in 2011 by the Heads of State and Government of the euro area and Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. It is open to other EU Member States on a voluntary basis. It was conceived as an intergovernmental solution to foster reforms and coordination. However, its implementation has suffered from a number of shortcomings, including the absence of a monitoring institution, but its underlying rationale is still relevant and should be revived. Hence, its relevant parts should be integrated into the framework of EU law.

Imbalance Procedure - are a first step to correct this shortcoming, but much more needs to be done to make sure all Member States improve their competitiveness as part of the same momentum.

The creation by each euro area Member State of a national body in charge of tracking performance and policies in the field of competitiveness is recommended. This would help to prevent economic divergence and it would increase ownership of the necessary reforms at the national level. These Competitiveness Authorities should be independent entities with a mandate to 'assess whether wages are evolving in line with productivity and compare with developments in other euro area countries and in the main comparable trading partners', as already agreed by a large majority of Member States under the Euro Plus Pact. In addition, these bodies could be mandated to assess progress made with economic reforms to enhance competitiveness more generally. In the end, a competitive economy is one in which institutions and policies allow productive firms to thrive. In turn, the development of these firms supports the expansion of employment, investment and trade.

A euro area system of Competitiveness Authorities should bring together these national bodies and the Commission, which would coordinate the actions of national Competitiveness Authorities on an annual basis. The Commission should then take into account the outcome of this coordination when it decides on steps under the European Semester, in particular for its Annual Growth Survey and for decisions to be taken under the Macroeconomic Imbalance Procedure (MIP), including whether to recommend the activation of the Excessive Imbalance Procedure.

Competitiveness Authorities

The aim of the Competitiveness Authorities should not be to harmonise practices and institutions in charge of wage formation across borders. Those processes vary widely within the EU and rightly reflect national preferences and legal traditions.

Based on a common template, each Member State should decide the exact set-up of its national Competitiveness Authority, but they should be democratically accountable and operationally independent. National actors, such as social partners, should continue to play their role according to the established practices in each Member State, but they should use the opinions of the Authorities as guidance during wage setting negotiations. Some Member States, like the Netherlands and Belgium, already have such authorities.

A stronger Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure (MIP) was created at the height of the crisis. It is part of the European Semester, the annual cycle of reporting and surveillance of EU and national economic policies. It serves as a tool to prevent and correct imbalances before they get out of hand. It has become a vital device for European surveillance, for instance to prevent real estate bubbles, or to detect a loss of competitiveness, rising

levels of private and public debt, and a lack of investment. It needs to be used to its full potential. This requires action on two fronts in particular:

- It should be used not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. It should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation.
- The procedure should also better capture imbalances for the euro area as a whole, not just for each individual country. For this, it needs to continue to focus on correcting harmful external deficits, given the risk they pose to the smooth functioning of the euro area (for example, in the form of 'sudden stops' of capital flows). At the same time, the Macroeconomic Imbalance Procedure (MIP) should also foster adequate reforms in countries accumulating large and sustained current account surpluses if these are driven by, for example, insufficient domestic demand and/or low growth potential, as this is also relevant for ensuring effective rebalancing within the Monetary Union.

A stronger focus on employment and social performance

The employment and social situations vary widely across the euro area, partly as a result of the crisis but also because of underlying trends and poor performance pre-dating the crisis. Europe's ambition should be to earn a 'social triple A'.

This is also an economic necessity. For EMU to succeed, labour markets and welfare systems need to function well and in a fair manner in all euro area Member States. Hence, employment and social concerns must feature highly in the European Semester. Unemployment, especially long term unemployment, is one of the main reasons for inequality and social exclusion. Therefore, efficient labour markets that promote a high level of employment and are able to absorb shocks without generating excessive unemployment are essential: they contribute to the smooth functioning of EMU as well as to more inclusive societies.

There is no 'one-size-fits-all' template to follow, but the challenges are often similar across Member States: getting more people of all ages into work; striking the right balance between flexible and secure Labour contracts; avoiding the divide between 'insiders' with high protection and wages and 'outsiders'; shifting taxes away from labour; delivering tailored support for the unemployed to re-enter the labour market, improving education and lifelong learning - to name but a few. Beyond labour markets, it is important to ensure that every citizen has access to adequate education and that an effective social protection system is in place to protect the most vulnerable in society, including a 'social protection floor'. Our populations are ageing rapidly and we still

need major reforms to ensure that pension and health systems can cope. This will include aligning the retirement age with life expectancy.

To secure EMU's long-term success, we should go a step further and push for a deeper integration of national labour markets by facilitating geographic and professional mobility, including through better recognition of qualifications, easier access to public sector jobs for non-nationals and better coordination of social security systems.

A stronger coordination of economic policies

The European Semester has significantly strengthened the coordination of economic policies. However, the addition of numerous 'packs', 'pacts', 'procedures' and manifold reporting requirements has blurred its rationale and effectiveness. The European Semester must be about setting our priorities together and about acting on them, in a European perspective, with a clear sense of our common interest. Steps have been taken to simplify and strengthen the European Semester: a greater focus on priorities, fewer documents and more time to discuss them, greater outreach at political level and engagement with national authorities. These steps must be pursued further in order to:

- Give Member States clear recommendations that continue to focus on priority reforms that are essential to raise potential growth, support job creation and exploit the opportunities offered by the Single Market. Country-Specific Recommendations need to be concrete and ambitious, especially as regards their expected outcome and the time-frame for delivery. At the same time, they should remain 'political', i.e. Member States should have a degree of freedom concerning the exact measures to be implemented. The national reform programmes that Member States prepare every year should serve as a basis for them to discuss their reform intentions.
- Hold Member States accountable for the delivery of their commitments. Periodic reporting on implementation, regular peer reviews or a 'comply-or-explain' approach should be used more systematically. The Eurogroup could already in Stage 1 play a coordinating role in cross-examining performance, with increased focus on benchmarking and pursuing best practices. This must go hand in hand with the use of the Macroeconomic Imbalance Procedure (MIP) to its full potential.
- Better integrate the euro area and the national dimensions. To this end, the European Semester should be structured into two successive stages - a European and a national stage. This means that discussions and recommendations concerning the euro area as a whole should take place first, ahead of country-specific discussions, so that common challenges are fully reflected in country-specific action. Annex 2 illustrates this proposal.

- Establish a clear long-term vision: not everything can or should happen in one year. The annual cycle of the European Semester should go together with a stronger multi-annual approach in line with the renewed convergence process.

2.2. Formalising the convergence process

In the medium term (Stage 2), the convergence process towards more resilient economic structures, as described above, should become more binding. This would be achieved by agreeing on a set of common high-level standards that would be defined in EU legislation, as sovereignty over policies of common concern would be shared and strong decision-making at euro area level would be established. In some areas, this will need to involve further harmonisation. In other areas, where different policies can lead to similarly good performance, it will mean finding country-specific solutions. The common standards should focus primarily on labour markets, competitiveness, business environment and public administrations, as well as certain aspects of tax policy (e.g. corporate tax base). Progress towards these standards would be monitored regularly. Country-Specific Recommendations would continue to be used in this context. Furthermore, the Macroeconomic Imbalance Procedure (MIP) could be utilised as a tool not only to prevent and correct imbalances but also to foster reforms and monitor progress in each euro area Member State towards these common standards. Significant and sustained convergence towards similarly resilient economies should be a condition for access to a shock absorption mechanism to be set up for the euro area, as briefly outlined in sub-section 4.2.

Defining the specific standards and indicators requires deeper analysis. However, as an example, the standards for labour markets should combine security and flexibility and could be developed along the various pillars of the 'flexicurity' concept (e.g. 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 social security systems and enabling labour taxation).

3. Towards Financial Union - Integrated Finance for an Integrated Economy

Progress towards a stronger Economic Union will go a long way to improving the functioning of EMU. At the same time, this must be accompanied by the completion of a Financial Union. Indeed, Economic and Financial Unions are complementary and mutually reinforcing. Progress on these two fronts must be a top priority in Stage 1 of the Roadmap towards a genuine EMU.

In a Monetary Union, the financial system must be truly single or else the impulses from monetary policy decisions (e.g. changes in policy interest rates) will not be transmitted uniformly across its Member States.

This is what happened during the crisis, which in turn aggravated economic divergence. Also, a single banking system is the mirror image of a single money. As the vast majority of money is bank deposits, money can only be truly single if confidence in the safety of bank deposits is the same irrespective of the Member State in which a bank operates. This requires single bank supervision, single bank resolution and single deposit insurance. This is also crucial to address the bank sovereign negative feedback loops which were at the heart of the crisis.

At the same time, the financial system must be able to diversify risk across countries, so it can moderate the impact of country-specific shocks and lower the amount of risk that needs to be shared through fiscal means.

All these reasons justify the urgent need for a Financial Union. We have largely achieved the goal on bank supervision with the setting up of the Single Supervisory Mechanism. The Single Resolution Mechanism has also been agreed, but not yet fully implemented. To complete the Financial Union, we need to launch a common deposit insurance scheme and the Capital Markets Union. Given their urgency, these measures should all be implemented in Stage 1.

3.1. Completing the Banking Union

Completing the Banking Union requires first and foremost the full transposition into national law of the Bank Resolution and Recovery Directive by all Member States. This is crucial for sharing risk with the private sector. Indeed, the Banking Union is a way to better protect taxpayers from the cost of bank rescues.

Second, we also need a swift agreement on an adequate bridge financing mechanism - a way of ensuring there is enough money if a bank needs to be unwound even if the financing in the Single Resolution Fund is not enough at that time - for the Fund by the time it becomes operational on 1 January 2016.⁴

Third, setting up a credible common backstop to the Single Resolution Fund and making progress towards a full level playing field for banks in all Member States should be a priority during the transition period to the creation of the Single Resolution Fund. A backstop should therefore be implemented swiftly. This could be done through a credit line from the European Stability Mechanism (ESM) to the Single Resolution Fund. This backstop should be fiscally neutral over the medium term by ensuring that public assistance is recouped by means of ex post levies on the financial industry.

Next, we propose the launching of a European Deposit Insurance Scheme (EDIS) - the third pillar of a fully-fledged Banking Union alongside bank supervision and resolution. As the current set-up with national deposit guarantee schemes remains vulnerable to large local shocks (in particular when the sovereign and the national banking sector are

⁴ This follows up on the ECOFIN Council Statement of 18 December 2013.

perceived to be in a fragile situation), common deposit insurance would increase the resilience against future crises. A common scheme is also more likely to be fiscally neutral over time than national deposit guarantee schemes because risks are spread more widely and because private contributions are raised over a much larger pool of financial institutions. Setting up a fully-fledged EDIS will take time, but taking concrete steps in that direction should be a priority already in Stage 1 using the possibilities under the current legal framework. A possible option would be to devise the EDIS as a re-insurance system at the European level for the national deposit guarantee schemes. Just like the Single Resolution Fund, the common EDIS would be privately funded through ex ante risk-based fees paid by all the participating banks in the Member States and devised in a way that would prevent moral hazard. Its scope should coincide with that of the Single Supervisory Mechanism.

In due course, the effectiveness of the ESM's direct bank recapitalisation instrument should be reviewed, especially given the restrictive eligibility criteria currently attached to it, while respecting the agreed bail-in rules. A more easily accessible mechanism for direct bank recapitalisation would boost depositor confidence by keeping distressed sovereigns at arm's length in the governance of restructured banks, and it would break the sovereign-bank nexus at national level.

All banks participating in the Banking Union need to enjoy a level playing field. This will require further measures, in addition to and beyond the single rule book, to address the still significant margin for discretion at national level which has important implications, notably for the quality and composition of banks' capital. A large part of the discrepancies could be addressed within the context of the Single Supervisory Mechanism. But for other issues legislative changes are necessary, in particular for those related to differing legal and institutional frameworks. Similarly, the recent revision of the Deposit Guarantee Schemes Directive has led to more harmonisation, especially on prefunding of national schemes, but it still contains some national discretion, which should be reviewed.

At the same time, the EU needs to continue to pay attention to potential new risks developing in the banking sector, including risks related to the shadow banking sector. Existing structures need to be able to detect risks to the financial sector as a whole.

To this end, we should consider strengthening our macroprudential institutions, building on the role and powers of the European Systemic Risk Board (ESRB), while maximising its synergies with the ECB. Finally, in the medium term, it may make sense to review the treatment of bank exposures to sovereign debt, for example by setting large exposure limits. This could further de-link financial stability from national public finances. However, such far-reaching changes to the current framework should only be considered as part of a coordinated effort at the global level.

3.2. Launching the Capital Markets Union

Alongside Banking Union, launching the Capital Markets Union must be seen as a priority⁵. This applies to all 28 EU Member States, but it is particularly relevant to the euro area. It will ensure more diversified sources of finance so that companies, including SMEs, can tap capital markets and access other sources of non-bank finance in addition to bank credit. At the same time, a well-functioning Capital Markets Union will strengthen cross-border risk-sharing through deepening integration of bond and equity markets, the latter of which is a key shock absorber. Truly integrated capital markets would also provide a buffer against systemic shocks in the financial sector and strengthen private sector risk-sharing across countries⁶. This in turn reduces the amount of risk-sharing that needs to be achieved through financial means (public risk-sharing). However, as the closer integration of capital markets and gradual removal of remaining national barriers could create new risks to financial stability, there will be a need to expand and strengthen the available tools to manage financial players' systemic risks prudently (macro-prudential toolkit) and to strengthen the supervisory framework to ensure the solidity of all financial actors. This should lead ultimately to a single European capital markets supervisor.

In this context, it is important that regulation creates incentives to risk-pooling and risk-sharing and ensures that all financial institutions have sufficient risk management structures in place and remain prudentially sound. Taxation can also play an important role in terms of providing a neutral treatment for different but comparable activities and investments across jurisdictions. A true Capital Markets Union also requires other improvements, some of which can only be achieved through legislation, such as: simplification of prospectus requirements; a revived EU market for high quality securitisation; greater harmonisation of accounting and auditing practices; as well as addressing the most important bottlenecks preventing the integration of capital markets in areas like insolvency law, company law, property rights and as regards the legal enforceability of cross-border claims.

4. Towards Fiscal Union - an Integrated Framework for Sound and Integrated Fiscal Policies

One of the main lessons of the crisis has been that fiscal policies are a matter of vital common interest in a Monetary Union. Even a strong Economic and Financial Union

⁵ See the Green Paper 'Building a Capital Markets Union': European Commission, 18 February 2015

⁶ Increased cross-border investment flows should in principle lead to greater private-sector risk sharing. This is for two reasons: 1) holding a more geographically diversified portfolio of financial assets, including corporate bonds and equities, provides for returns that are less volatile and less correlated with domestic income (capital market channel for risk sharing); 2) when a country is hit by an economic shock, cross-border flows should enable its residents to lend or borrow to offset the shock (credit market channel of risk sharing).

and a price stability-oriented common monetary policy are no guarantee for EMU to always function properly. Unsustainable fiscal policies not only endanger price stability in the Union but they also harm financial stability insofar as they create contagion between Member States and financial fragmentation.

Responsible national fiscal policies are therefore essential. They must perform a double function: guaranteeing that public debt is sustainable and ensuring that fiscal automatic stabilisers can operate to cushion country-specific economic shocks. If this is not the case, downturns are likely to last longer in individual countries, which in turn affects the whole euro area.

But this is not enough. It is important to ensure also that the sum of national budget balances leads to an appropriate fiscal stance⁷ at the level of the euro area as a whole. This is key to avoiding pro-cyclical fiscal policies at all times.

Finally, in case of a very severe crisis, national budgets can become overwhelmed, as was the case in some countries in recent years. In such situations, national fiscal stabilisers might not be enough to absorb the shock and provide the optimal level of economic stabilisation, which in turn can harm the whole euro area. For this reason, it would be important to create in the longer term a euro area-wide fiscal stabilisation function. Such a step should be the culmination of a process that requires, as a precondition, a significant degree of economic convergence, financial integration and further coordination and pooling of decision making on national budgets, with commensurate strengthening of democratic accountability. This is important to avoid moral hazard and ensure joint fiscal discipline.

In the meantime, we need to reinforce trust in the common EU fiscal governance framework. A continued thorough, consistent and transparent implementation of our current fiscal framework is therefore essential to prepare the ground for further steps ahead.

4.1. Responsible budgetary policies as EMU's cornerstone

In recent years, the so-called 'Six-Pack', the 'Two-Pack' and the Treaty on Stability, Coordination and Governance have brought significant improvements to the framework for fiscal policies in the EMU.

Together, they drive our efforts to prevent budgetary imbalances, to focus on debt developments and on better enforcement mechanisms, as well as on national ownership of EU rules. This new governance framework already provides for ample ex ante coordination of annual budgets of euro area Member States and enhances the

⁷ The concept of fiscal stance reflects changes to the fiscal balance in order to influence aggregate economic demand and output. Under the Stability and Growth Pact, the fiscal stance is measured on the basis of the structural fiscal balance, i.e. the fiscal balance corrected for the effects of the economic cycle and net of one-off and other temporary measures. Generally speaking, a fiscal deficit (surplus) would suggest an expansionary (contractionary) fiscal stance.

surveillance of those experiencing financial difficulties. Every Member State must stick to the rules, or the credibility of this framework is at risk. The rules are admittedly complex, but the forthcoming review of the 'Six-Pack' and 'Two-Pack' should be an opportunity to improve clarity, transparency, compliance and legitimacy, while preserving their stability-oriented nature.

In the short run (Stage 1), the current governance framework should be strengthened through the creation of an advisory European Fiscal Board. This new advisory entity would coordinate and complement the national fiscal councils that have been set up in the context of the EU Directive on budgetary frameworks. It would provide a public and independent assessment, at European level, of how budgets - and their execution - perform against the economic objectives and recommendations set out in the EU fiscal governance framework. The composition of the Board should be pluralistic and draw from a wide range of expertise. The mandate of this new European Fiscal Board should rest on a number of guiding principles as set out in Annex 3.

Such a European Fiscal Board should lead to better compliance with the common fiscal rules, a more informed public debate, and stronger coordination of national fiscal policies.

4.2. A fiscal stabilisation function for the euro area

There are many ways for a currency union to progress towards a Fiscal Union. Yet, while the degree to which currency unions have common budgetary instruments differs, all mature Monetary Unions have put in place a common macroeconomic stabilisation function to better deal with shocks that cannot be managed at the national level alone.

This would be a natural development for the euro area in the longer term (Stage 2) and under the conditions explained above, i.e. as the culmination of a process of convergence and further pooling of decision-making on national budgets. The objective of automatic stabilisation at the euro area level would not be to actively fine-tune the economic cycle at euro area level. Instead, it should improve the cushioning of large macroeconomic shocks and thereby make EMU overall more resilient. The exact design of such euro area stabilisers requires more in-depth work. This should be one of the tasks of the proposed expert group.

Options and guiding principles for a euro area stabilisation function

A prospective stabilisation function could, for example, build on the European Fund for Strategic Investments as a first step, by identifying a pool of financing sources and investment projects specific to the euro area, to be tapped into according to the business cycle. Various additional sources of financing should be considered.

It will be important to ensure that the design of such stabilisation function rests on the following guiding principles:

- It should not lead to permanent transfers between countries or to transfers in one direction only, which is why converging towards Economic Union is a precondition for participation. It should also not be conceived as a way to equalise incomes between Member States.
- It should neither undermine the incentives for sound fiscal policy-making at the national level, nor the incentives to address national structural weaknesses. Accordingly, and to prevent moral hazard, it should be tightly linked to compliance with the broad EU governance framework and to progress in converging towards the common standards described in Section 2.
- It should be developed within the framework of the European Union. This would guarantee that it is consistent with the existing EU fiscal framework and with procedures for the coordination of economic policies. It should be open and transparent vis-à-vis all EU Member States.
- It should not be an instrument for crisis management. The European Stability Mechanism (ESM) already performs that function. Instead, its role should be to improve the overall economic resilience of EMU and individual euro area countries. It would thus help to prevent crises and actually make future interventions by the ESM less likely.

5. Democratic Accountability, Legitimacy and Institutional Strengthening

Greater responsibility and integration at EU and euro area level should go hand in hand with greater democratic accountability, legitimacy and institutional strengthening. This is both a condition for success and a natural consequence of the increasing interdependence within EMU. It also means better sharing of new powers and greater transparency about who decides what and when. Ultimately, this means and requires more dialogue, greater mutual trust and a stronger capacity to act collectively.

At the height of the crisis, far-reaching decisions had often to be taken in a rush, sometimes overnight. In several cases, intergovernmental solutions were chosen to speed up decisions or overcome opposition. Now is the time to review and consolidate our political construct - and to build the next stage of our Economic and Monetary Union.

A number of concrete steps towards more accountability and participation should be taken already in the short run (Stage 1).

A key role for the European Parliament and national Parliaments

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 co-operation 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 - a right that should be exercised more systematically than at present.

We could further strengthen the timing and added value of these parliamentary moments in line with the renewed European Semester outlined in Annex 2.

In particular, the European 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 (Commission, Ecofin Council, Eurogroup and the European Parliament) in full respect of their respective institutional role, in the form of a non-binding interinstitutional agreement.

The European Commission should 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 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.

The European Parliament should organise itself to assume its role in matters pertaining especially to the euro area.

Consolidating the external representation of the euro

As EMU evolves towards Economic, Financial and Fiscal Union, its external representation should be increasingly unified. This process may take place gradually, but it should be put in motion starting in Stage 1.

The EU is the world's largest trading block and the world's largest trader of manufactured goods and services. It has achieved this by acting with one voice on the global stage, rather than with 28 separate trade strategies. The large economic and financial size and the existence of a single monetary and exchange rate policy for most of its members make the EU policy decisions and economic developments increasingly relevant for the world economy.

However, in the international financial institutions, the EU and the euro area are still not represented as one. This fragmented voice means the EU is punching below its political and economic weight as each euro area Member State speaks individually. This is particularly true in the case of the IMF despite the efforts made to coordinate European positions.

Integrating intergovernmental solutions within the EU legal framework

Several intergovernmental arrangements were created during the crisis. This was explained by the shortcomings of the EMU's architecture but ultimately they need to be integrated into the legal framework of the European Union. This is already foreseen for the Treaty on Stability, Coordination and Governance, and should be done also for other cases, such as the Euro Plus Pact and the intergovernmental agreement on the Single Resolution Fund.

Finally, the European Stability Mechanism has established itself as a central instrument to manage potential crises. However, largely as a result of its intergovernmental structure, its governance and decision-making processes are complex and lengthy.

In the medium term (Stage 2), its governance should therefore be fully integrated within the EU Treaties.

A central steer by the Eurogroup

The Eurogroup has a central role to play in discussing, promoting and representing the interest of the euro area. It will step up its involvement in the revamped European Semester. In the short run, this may require a reinforcement of its presidency and the means at its disposal. In the longer run (Stage 2), a full-time presidency of the Eurogroup could be considered with a clear mandate within the framework of this report. With the support of all EU institutions, it could play an even greater role in representing the interest of the single currency, within the euro area and beyond.

A euro area treasury

The Stability and Growth Pact remains the anchor for fiscal stability and confidence in the respect of our fiscal rules. In addition, a genuine Fiscal Union will require more joint decision-making on fiscal policy.

This would not mean centralisation of all aspects of revenue and expenditure policy. Euro area Member States would continue to decide on taxation and the allocation of budgetary expenditures according to national preferences and political choices. However, as the euro area evolves towards a genuine EMU, some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy. A future euro area treasury could be the place for such collective decision-making.

CONCLUSION

This report has put forward the principal steps necessary to complete EMU at the latest by 2025. It offers a roadmap that is ambitious yet pragmatic. Some of these steps can and should be implemented without delay. First initiatives to this end should be launched by the EU institutions as of 1 July 2015. Others will require more time. But above all, the report offers a clear sense of direction for Europe's EMU. This is essential for citizens and economic actors alike, and for their confidence in the single currency. Translating these proposals into action will require a shared sense of purpose among all Member States and EU institutions. The European Council is invited to endorse these proposals at the earliest occasion.

Annex 1: Roadmap Towards a Complete Economic and Monetary Union

STAGE 1: 1 JULY 2015 - 30 JUNE 2017

IMMEDIATE STEPS

Economic Union

- **A new boost to convergence, jobs and growth**
 - Creation of a euro area system of Competitiveness Authorities;
 - Strengthened implementation of the Macroeconomic Imbalance Procedure;
 - Greater focus on employment and social performance;
 - Stronger coordination of economic policies within a revamped European Semester.

Financial Union

- **Complete the Banking Union**
 - Setting up a bridge financing mechanism for the Single Resolution Fund (SRF);
 - Implementing concrete steps towards the common backstop to the SRF;
 - Agreeing on a common Deposit Insurance Scheme;
 - Improving the effectiveness of the instrument for direct bank recapitalisation in the European Stability Mechanism (ESM).
- **Launch the Capital Markets Union**
- **Reinforce the European Systemic Risk Board**

Fiscal Union

- **A new advisory European Fiscal Board**
 - The board would provide a public and independent assessment, at European level, of how budgets - and their execution - perform against the economic objectives and recommendations set out in the EU fiscal framework. Its advice should feed into the decisions taken by the Commission in the context of the European Semester.

Democratic accountability, legitimacy and institutional strengthening

- **Revamp the European Semester**
 - Reorganise the Semester in two consecutive stages, with the first stage devoted to the euro area as a whole, before the discussion of country specific issues in the second stage.
- **Strengthen parliamentary control as part of the European Semester**
 - Plenary debate at the European Parliament on the Annual Growth Survey both before and after it is issued by the Commission; followed by a plenary debate on the Country-Specific Recommendations;

- More systematic interactions between Commissioners and national Parliaments both on the Country- Specific Recommendations and on national budgets;
- More systematic consultation and involvement by governments of national Parliaments and social partners before the annual submission of National Reform and Stability Programmes.
- **Increase the level of cooperation between the European Parliament and national Parliaments**
- **Reinforce the steer of the Eurogroup**
- **Take steps towards a consolidated external representation of the euro area**
- **Integrate into the framework of EU law the Treaty on Stability, Coordination and Governance; the relevant parts of the Euro Plus Pact; and the Intergovernmental Agreement on the Single Resolution Fund**

STAGE 2

COMPLETING THE EMU ARCHITECTURE

Economic Union

- **Formalise and make more binding the convergence process**

Fiscal Union

- **Set up a macroeconomic stabilisation function for the euro area**
- Convergence towards similarly resilient national economic structures would be a condition to access this mechanism.

Democratic accountability, legitimacy and institutional strengthening

- **Integrate the European Stability Mechanism (ESM) into the EU law framework**
- **Set up a euro area treasury accountable at the European level**

FINAL STAGE AT THE LATEST BY 2025

Annex 2: A More Integrated European Semester

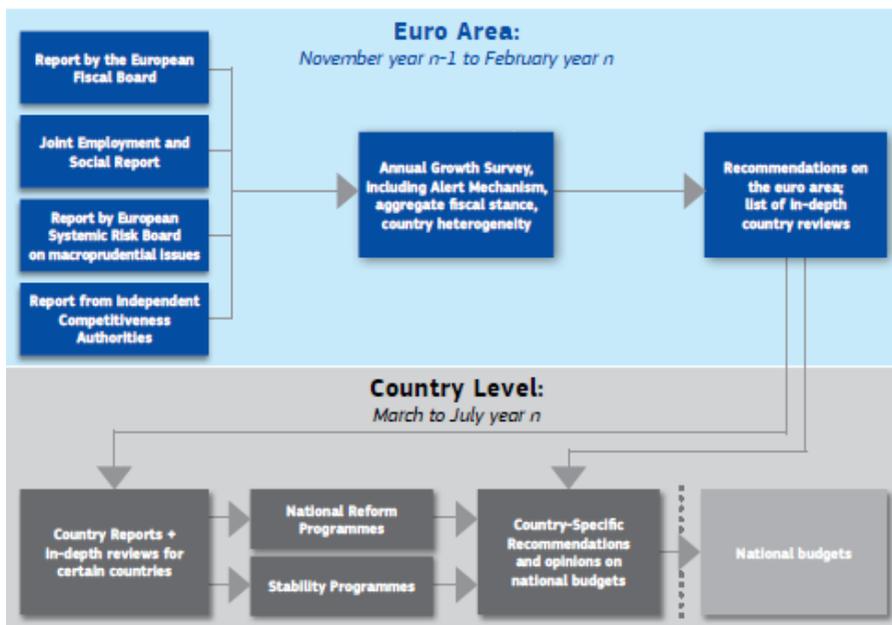
To better integrate the euro area and the national levels, the European Semester should be structured into two successive stages distinguishing more clearly between a European moment and a national moment (the figure below illustrates the new structure).

The first stage (November of year 'n-1' to February of year 'n') would be devoted to assessing the situation in the euro area as a whole. The Commission's Annual Growth Survey (AGS) would be the basis for this discussion and would draw on a number of thematic reports, such as the Alert Mechanism Report, the annual report of the European Systemic Risk Board, the Joint Employment and Social Report, as well as the views of a new European Fiscal Board and the new euro area system of Competitiveness Authorities. Together, these reports would give a complete picture of euro area challenges. The AGS would be presented to and discussed by the European Parliament. At the same time as the AGS, the Commission would present a dedicated recommendation for action within the euro area, as well as a list of Member States it considers for 'in-depth reviews', according to the Macroeconomic Imbalance Procedure (MIP). These documents would be discussed with the European Parliament within the framework of the economic dialogue, as foreseen in the 'Six-Pack' legislation, and with the different formations of the Council and the Eurogroup. This means that by end-February every year a genuine discussion will have taken place on the priorities set for the EU, and the euro area in particular, for the coming year.

The following stage (March to July of year 'n') would be devoted to reviewing and assessing the performance and policies of the Member States in the light of these priorities. This is the phase where Member States should systematically involve national Parliaments, together with social partners and civil society, in the discussion of national priorities. This stage will start with the publication of the Commission's Country Reports, which summarise Member States' challenges and performance. This stage would end with the adoption of Country-Specific Recommendations which should clearly take into account the euro area dimension agreed in the first stage.

EU-Level social partners could be involved in discussions earlier, for instance through a renewed Tripartite Social Summit and Macroeconomic Dialogue, to maximise their contributions to this new process.

1. Documents framing the deepening agenda for the Economic and Monetary Union



Annex 3: Advisory European Fiscal Board - Guiding Principles

The mandate of the advisory European Fiscal Board should rest on the following principles:

- It should coordinate the network of national fiscal councils and conform to the same standard of independence.
- It should advise, not implement policy. Enforcing the rules should remain the task of the European Commission, which should be able to deviate from the views of the European Fiscal Board provided that it has justifiable reasons and explains them.
- It should form an economic, rather than a legal, judgement on the appropriate fiscal stance, both at national and euro area levels, against the background of EU fiscal rules. This should be done on the basis of the rules set in the Stability and Growth Pact (SGP).
- It should be able to issue opinions when it considers it necessary, including in particular in connection with the assessment of Stability Programmes and presentation of the annual Draft Budgetary Plans and the execution of national budgets.
- It should provide an ex post evaluation of how the governance framework was implemented.

EUROPEAN COMMISSION

REFLECTION PAPER

On the deepening of the Economic and Monetary Union

[(COM(2017) final, 31.05.2017)]

Foreword

On 1 March 2017, the European Commission presented a White Paper on the future of Europe. It marked the starting point for a wide debate on the future European Union with 27 Member States. To contribute further to the discussion, the European Commission is putting forward a number of reflection papers on key topics that will define the coming years.

This reflection paper – the third in the series – sets out possible ways forward for deepening and completing the Economic and Monetary Union up until 2025. It does so by setting out concrete steps that could be taken by the time of the European Parliament elections in 2019, as well as a series of options for the following years. Building on the Five Presidents' Report, it is intended both to stimulate the debate on the EMU and to help reach a shared vision of its future design.

The single currency is one of Europe's most significant and tangible achievements. It has helped our economies to integrate and has brought Europeans closer together. But it has always been much more than a monetary project. It was conceived as a promise of prosperity – and that is how it must remain, also for those that will become members of the euro area in the future.

That promise of prosperity became more important than ever as Europe was shaken by the financial and economic crisis. The painful legacy of those years has left Europeans wanting more of what the single currency offers: more stability, more protection, and more opportunities. Determined action in response to the crisis to improve the instruments and architecture of the euro area partially met these expectations. Today the EU economy is growing again and unemployment has fallen to its lowest level in eight years. But the euro area does not need only firefighters. It also needs builders and long-term architects.

Our Economic and Monetary Union still falls short on three fronts. First, it is not yet able to reverse sufficiently the social and economic divergences between and within euro area members that emerged from the crisis. Second, these centrifugal forces come with a heavy political price. If they remain unaddressed, they are likely to weaken

citizens' support for the euro and create different perceptions of the challenges, rather than a consensus on a vision for the future. Finally, while the EMU is stronger, it is not yet fully shock-proof.

With the Rome Declaration signed on 25 March 2017, EU leaders committed to "working towards completing the Economic and Monetary Union; a Union where economies converge". Now, this promise must be delivered. This requires political courage, a common vision and the determination to act in the common interest.

A strong euro requires a stronger Economic and Monetary Union.

"In these times of change, and aware of the concerns of our citizens, we commit to the Rome Agenda, and pledge to work towards (...) a Union where (...) a stable and further strengthened single currency open(s) avenues for growth, cohesion, competitiveness, innovation and exchange, especially for small and medium-sized enterprises; a Union promoting sustained and sustainable growth, through investment, structural reforms, investment, structural reforms and working towards completing the Economic and Monetary Union; a Union where economies converge."

Rome Declaration, EU leaders, 25 March 2017

"A complete Economic and Monetary Union is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for future global challenges and to enable each of its members to prosper."

The Five Presidents' Report: Completing Europe's Economic and Monetary Union, (Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015)

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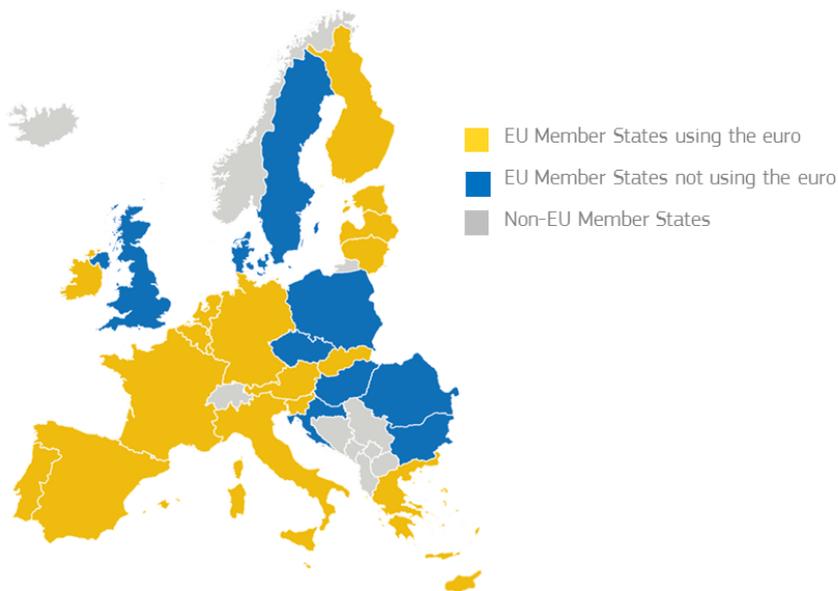
1. Introduction
2. The story of the euro so far
3. The case for completing the Economic and Monetary Union
4. Reflections on a possible way forward
5. Conclusion

1. Introduction

The euro is more than a currency. For a continent so long divided, euro notes and coins are tangible, every day reminders of the freedom, convenience and opportunities that the European Union offers.

Today, the euro is shared by as many as 340 million Europeans in 19 Member States. Seven of the Member States that joined the EU in 2004 have already adopted the euro. And yet it is only 25 years since the Treaty of Maastricht paved the way for the single currency and only 15 years since the first coin was used.

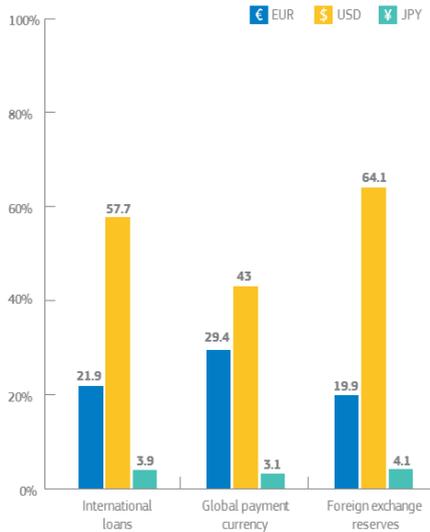
The euro is the currency of 19 Member States



Source: European Commission:

Since its launch, the euro has become the second most used currency around the world. Sixty countries and territories, representing another 175 million people, have pegged their own currencies, either directly or indirectly, to the euro.

The euro is the second most important currency in the world.



Source: European Central Bank, June 2016

The functioning and future of the Economic and Monetary Union (EMU) is a matter of interest for all European citizens from whichever Member State they come from, including those who will join the euro area in the future. After the departure of the United Kingdom from the EU, the economies of euro area countries will represent 85% of the total GDP of the EU. This highlights the euro's central role in the future EU at 27. Given its importance for the world, it is just as important to international partners and investors.

The euro is a success story on many levels but the tough times the euro area has endured over the years mean it is not always perceived as such. The financial and economic crisis that started in the United States in 2007-08 led to the worst recession in the European Union's six-decade history. It also revealed the shortcomings of the initial EMU setup. In adversity, Member States and the EU institutions took strong political decisions to preserve the integrity of the euro and to avoid the worst.

Important lessons have been drawn, with new policy instruments and institutional changes helping to strengthen the euro area. The current situation is much improved but challenges persist. Years of low or no growth have left enduring marks on Europe's social, economic and political fabric. Many countries are still dealing with

the legacies of the crisis – from high unemployment to high levels of public or private debt. And while support for the single currency is strong – and even on the up – there is also a broader questioning about the value-added of the euro and the mechanisms of the EMU.

As robust as it is today, the EMU remains incomplete. The “Monetary” pillar of the EMU is well developed, as illustrated by the role of the European Central Bank (ECB). However, the “Economic” component is lagging behind, with less integration at EU level hampering its ability to support fully the monetary policy and national economic policies. This is symptomatic of the need to strengthen political will to cement the “Union” part of the EMU. More trust is needed across the board, among Member States, between Member States and EU institutions, and with the general public.

That shows that the euro’s journey is only just beginning. There should be no complacency about the need to strengthen its architecture. Backtracking on what has already been achieved is not an option. The Five Presidents’ Report of June 2015 recalled the need to complete Europe’s EMU and mapped out the way forward by 2025. It initiated a first phase of “*deepening by doing*” until June 2017. The steps needed for the second stage towards 2025, however, still need to be discussed and agreed among Member States.

Such a debate can only happen with a shared understanding of the challenges and of the way forward. Over the years, there has been no shortage of in-depth reports, speeches and political debates. A lot is known about what needs to be done. However, progress is often stalled by disagreement. Some argue that more solidarity is the way forward to tackle the legacy of the crisis, some insist on the necessity to strengthen responsibility of the Member States as a prerequisite for further progress. As a consequence, despite all the efforts made in recent years, the momentum for further reform of the EMU has been partly lost. This might also be due to the reassuring feeling from recent signs of improvement in the economic and social situation. But we simply cannot afford to wait for another crisis before finding the collective will to act.

As Europe discusses its future, now is the time to look beyond what has already been said and done. The White Paper on the future of Europe of 1 March 2017 highlighted the importance of a strong euro area for the future of the EU27. In signing the Rome Declaration of 25 March 2017, Member States reaffirmed their commitment to completing the EMU. And even if the economic environment is not quite sunny yet, we should fix the roof of the EMU now while we have the right conditions.

This reflection paper takes forward the views of the Five Presidents’ Report on completing Europe’s EMU and contributes to the broader debate initiated by the White Paper on the future of Europe. It was prepared by the Commission paying due attention to the debates in the Member States and to the views of the other EU institutions. It describes our common achievements and challenges and offers a practical way forward for the years to come.

There is not one, single answer. What is needed is an overall vision and clear sequencing of what needs to be done. This possible way forward is summarised graphically in Annex 1. On several aspects, this reflection paper is more precise. This is notably the case when it comes to the measures already initiated, promised or needed over the next two years. On others, it is more exploratory and offers a range of options, in line with the overall vision and necessary sequencing.

Much of the discussion on the EMU is technical by nature. Many ideas in this paper are largely about fixing the nuts and bolts in the euro’s “engine room”. But what is at stake is not technical: it is about making the euro deliver better for all. This requires strong political engagement and support at all levels.

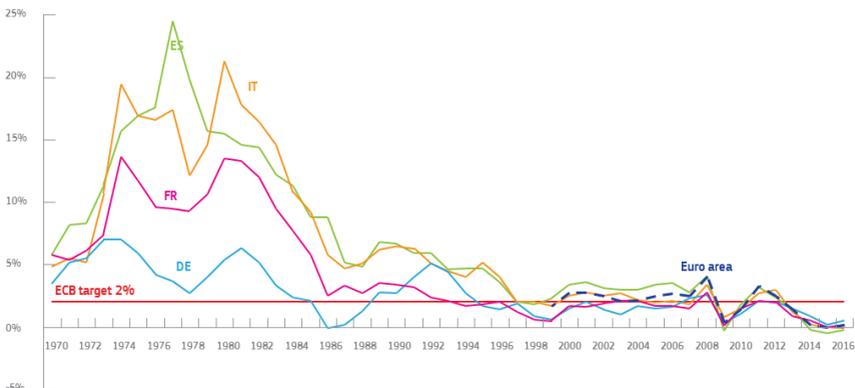
2. The story of the euro so far

Tangible benefits for citizens, businesses and Member States

For most Europeans, the euro is part of daily life. For the first “generation euro” it is the only currency they have ever known. Those with longer memories will remember the changes the euro has brought and will have seen first-hand its advantages. Their mortgages and living standards are no longer at the mercy of the high inflation and volatile exchange rates of the 1970s and 1980s. Since the introduction of the euro, inflation has mostly hovered around or below 2%, the reference value of the European Central Bank. Citizens no longer pay expensive charges to change currencies when crossing internal borders in the euro area. They no longer pay more for transferring or withdrawing money in another euro area country.

The euro has brought stable prices

Consumer Price Index, % change on previous year



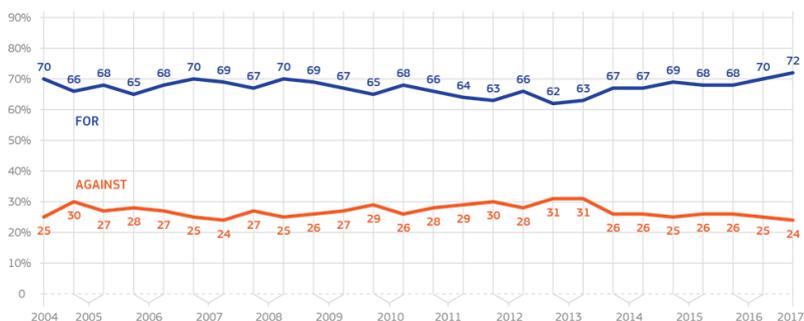
Source: World Bank, OECD

For European businesses, the advantages of the euro are equally clear-cut. It is one of the major attractions and benefits of being part of the world's largest single market and trade bloc. For them, the single currency has meant big savings in both time and money. Thanks to the euro's status as the world's second reserve currency, companies invoice about two thirds of their export and half of their import business in euros. There are no more exchange-rate risks or transaction costs for cross-border operations. Invoices can be issued in one currency for clients in 19 countries. It is easier and on average cheaper to borrow money from banks or other financing sources. And much more worldwide business can be done in euros today than was ever possible with the franc, lira or deutschmark.

The general context of low interest rates has allowed households and businesses to benefit from cheaper credit in recent years. Likewise, euro area governments have saved EUR 50 billion in interest payments annually compared to a few years ago. That means extra money that could be used to reduce public debt or boost public investment or education spending.

Given these benefits, it is easy to see why support for the euro is strong. With the exception of a dip at the height of the financial crisis, Eurobarometer surveys point to consistently strong support for the single currency among citizens living in the euro area, reaching 72% on average in April 2017. This is the highest level since 2004.

Popular support for the single currency has been consistently high in the euro area



Source: European Commission and Eurobarometer 2017

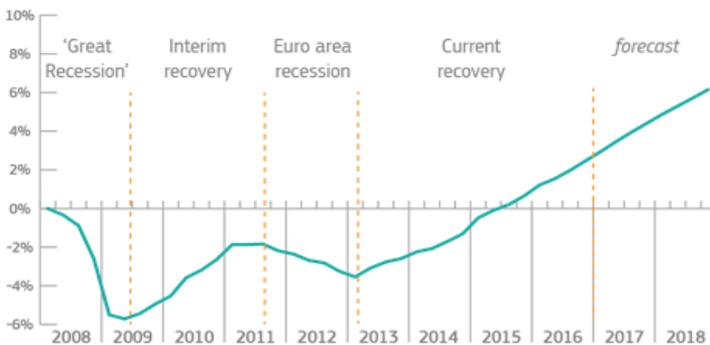
Hard lessons learned during the crisis

The global crisis that started in 2007-08 exposed the weaknesses of the still young currency and hit the euro area particularly hard. The first European countries affected by the global crisis were not in the euro area, and the euro seemed to act as a shield. However, when perceptions about the vulnerability of some euro area members changed, the disruption was significant. Tough decisions were taken by several Member States to use taxpayers’ money to support banks financially and avoid the risk of collapse. Banks had gotten into trouble after the financial bubbles had accumulated and grown in size in previous years. Combined with lower revenues and higher expenditure resulting from the “great recession”, levels of public debt increased significantly, from below 70% before the crisis to 92% of GDP on average in 2014.

The euro area experienced an “interim recovery” over 2010-11, but this proved short-lived. Given the interplay between banks and public finances, several Member States as well as banks found it increasingly difficult to borrow from the markets. Their capacity to finance themselves was put at risk. Investment collapsed as credit became less available. It fell by more than 18% between 2008 (when it was probably above sustainable levels) and 2013. Unemployment rose sharply. The financial crisis became a crisis of the real economy, affecting millions of citizens and businesses.

Economic activity was hit strongly by the crisis but is now recovering

% change in the level of real GDP of the euro area compared to 2008

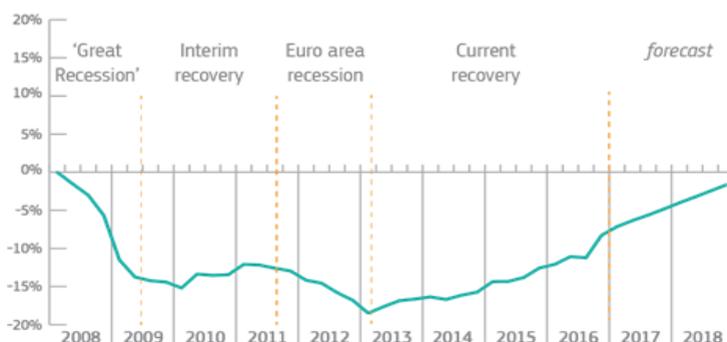


Source: European Commission

The protracted economic downturn and divergences between Member States are the result of pre-crisis imbalances and shortcomings in the way the EMU responds to major shocks. The sudden stop in capital flows exposed the unsustainable debt and competitiveness gaps that had accumulated over time. With lowered expectations and a shortage of financing, investment and consumption contracted sharply in the most affected countries. Millions of jobs were lost and wages came under pressure as one of the tools to restore competitiveness, further reducing household purchasing power. Public spending was at the same time constrained by the need to contain the rise in public debt amidst growing market concerns about the integrity of the euro area. In 2013, the level of real GDP in the euro area was still 3.5% lower than in 2008, and wide gaps in growth had opened between a group of more vulnerable countries and the others, with significant social and political costs.

Investment in the euro area collapsed for several years and is only now picking up

% change in the level of investment in the euro area compared to 2008



Source: European Commission

A determined response to put the euro back in shape

A determined response was needed. While the European Central Bank played its role in mitigating the effects of the crisis, major new steps were also taken by the other EU institutions to strengthen the integrity of the euro area. Annex 2 recalls the main instruments now available in the “EMU toolbox” as a result of decisions taken over recent years.

Most of these steps were taken under pressure, at the height or in the immediate aftermath of the crisis. However, they provided lasting solutions to key weaknesses in the EMU policy toolbox and institutional architecture. For instance, a European Stability Mechanism (ESM) was put in place on an intergovernmental basis as a way to

provide support to those Member States facing financial difficulties. Its lending capacity of EUR 500 billion helped countries like Spain, Cyprus and Greece to finance their public spending and protected them from even more serious harm. The rules for the macroeconomic and fiscal surveillance of the euro area were strengthened, with the adoption of the so-called “six-pack” and “two-pack” EU legislation, as well as a new Fiscal Compact (as part of the intergovernmental Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)). The EU undertook a complete overhaul of its rules on financial services, adopting 40 pieces of legislation since 2009. A new common system of bank supervision and resolution was established.

Significant reforms have also been implemented in many Member States. Reforms ranged from containing costs in the public sector to boosting price and non-price competitiveness as a way to recover much needed growth. Further priorities differed across countries. In general, measures encompassed fixing structural weaknesses in the banking sector or improving the functioning of the labour markets and supporting the unemployed to find new jobs. They also included providing incentives to businesses for innovation and investment, while others focused on modernising public administrations, pension and care systems. Reforms have taken time but are now bearing fruit.

This momentum has been supported by further action at EU level. Since the arrival of the current Commission, EU policy-making was re-centred around the “virtuous triangle” of boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies. Social fairness was enshrined as an overarching objective. The European Semester of economic policy coordination – the main mechanism through which Member States discuss their economic and fiscal policy – was streamlined to cater for more dialogue at all levels and a greater focus on euro area priorities. A new Investment Plan for Europe – also known as the “Juncker Plan” – was launched. It is now being doubled to mobilise EUR 630 billion of extra investment for the EU as a whole.

Several other key initiatives were taken. The single market is being deepened in the fields of capital markets, energy and digital. This is a source of jobs, growth and innovation and helps to make the single currency more robust in the face of a constantly changing global economic environment. From youth employment to the fight against tax evasion, and recently again with the establishment of a European Pillar of Social Rights, new initiatives were also taken to ensure greater social fairness and make sure economic and social priorities are sustainable and work hand-in-hand.

The efforts are paying off, but there is room for further improvements

Progress is visible on all fronts today. The European economy has entered its fifth year of recovery, which is now reaching all euro area Member States. This is expected to continue at a largely steady pace this year and next. Employment is increasing faster than it has since the crisis began: more than 5 million jobs have been created since early

2013 in the euro area. Unemployment has fallen to its lowest level since 2009, at 9.5% in March 2017. At more than 70%, the employment rate is close to an all-time high. Investment is picking up again. The aggregate deficit of the euro area has fallen from over 6% of GDP on average in 2010 to 1.4% of GDP this year. Sovereign debt in the euro area has also started to decline.

Unemployment in the euro area is at its lowest since 2009 but still too high

Unemployment rate in %



Source: European Commission

The architecture of the euro area is as robust as it has ever been, but there should be no complacency. Together with the decisive action of the European Central Bank, the commitment to strengthen the functioning of the euro and to defend its integrity has been an essential part of the improved performances in recent years. Several further steps have also been taken following the Five Presidents' Report, which are also recalled in Annex 2. Yet, as the current Commission said while taking office, the crisis is not over as long as unemployment remains so high. 15.4 million people are still without a job in the euro area – we must build on the progress already achieved to secure a truly strong and sustainable recovery.

3. The case for completing the Economic and Monetary Union

In spite of significant improvements over the years, far-reaching legacies from the crisis persist and challenges for the euro area remain. Years of low or no growth have created and exacerbated significant economic and social differences. The crisis

also led to financial sector fragmentation across euro area Member States. Weaknesses remain in the quality of public finances and in the way the euro area is governed.

These realities – and the perceptions of challenges – are still quite different across the euro area. Annex 3 provides a snapshot of economic trends across euro area countries. The improved economic context gives us a window of opportunity to draw further lessons from the experience of the first fifteen years with our single currency, to acknowledge and manage better the interdependence of our economies, and to equip the euro area to deliver even better in the years to come.

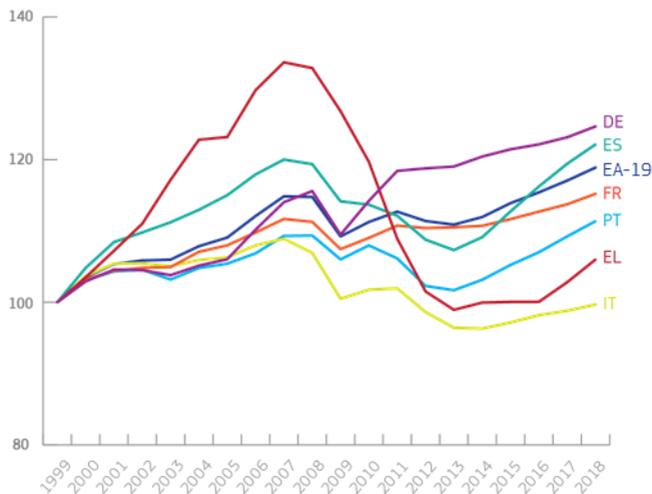
3.1. The need to tackle persisting economic and social divergences

The convergence trends of the single currency’s first years have proven partly illusory. Before the crisis, the euro area was the symbol of continuously increasing prosperity. Real income per inhabitant in the euro area rose steadily between 1999 and 2007. This was partly fuelled by favourable credit conditions and by large capital flows moving towards the Member States with increasing current account deficits. However, these flows did not always translate into sustainable investment. In some cases they rather fuelled “bubbles”, such as in the real estate and construction sectors, as well as an increase in government spending. The positive developments of the early 2000s also partly hid underlying vulnerabilities in these countries. They were notably related to the financial sector and to a loss of competitiveness. This was in several cases compounded by inefficiencies in labour and product markets. These weaknesses were not fully picked up at the time, either by financial markets or by public authorities. The EMU lacked a developed surveillance framework to track or correct these imbalances.

The crisis of the years 2007-08 marked the end of the convergence trend and the start of a divergence trend, which is only slowly being corrected. This has been particularly costly in those parts of the euro area that had not been sufficiently resilient to withstand the effects of the economic shock. Overall, the GDP per capita of the euro area is only now reaching pre-crisis levels and there are signs of divergences being reduced, but a strong process of re-convergence is not yet visible.

Real GDP per capita is only slowly recovering

Index 1999=100

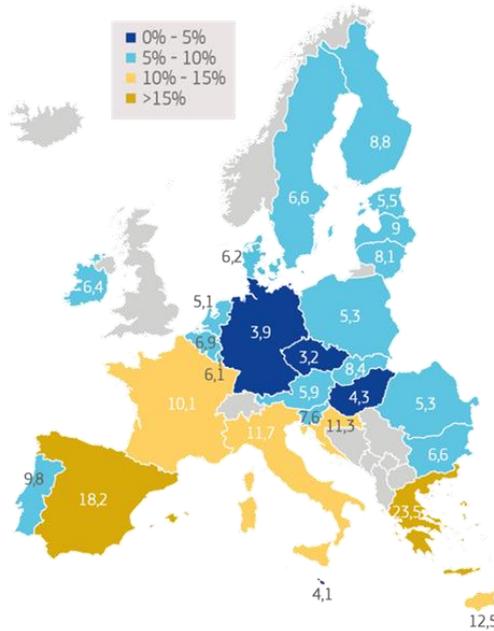


Source: European Commission

While unemployment is declining overall, levels still differ substantially across the euro area. In some countries, such as in Germany, the Netherlands, Estonia and Austria, unemployment is at very low levels. Others – like Spain or Greece – still experience unacceptably high unemployment, especially for young people, with high shares of structural unemployment. This has had far-reaching social consequences, particularly in the countries having had to adjust most during the crisis. For the first time since the Second World War, there is a real risk that the generation of today's young adults ends up less well-off than their parents. These developments have fuelled doubts about the design and functioning of the EU's social market economy and the EMU in particular.

Unemployment rates are falling but still differ substantially across Europe

In %, March 2017



Source: European Commission

Low investment levels, both public and private, and weak productivity trends risk fuelling a further polarisation of national situations and are a major drag on the performance of the euro area as a whole. Investment is only now picking up in many euro area countries, and remains below long-term trends. Given the positive role of investment for productivity and growth, continuous low investment levels could inflict long-term damage in terms of perpetuating differences in growth potential.

Why further steps towards Economic Union?

After the years of crisis, the euro area economies need to get on a stronger path of growth and prosperity. This should go together with — and will benefit from — a sustained re-convergence across countries, to amplify the

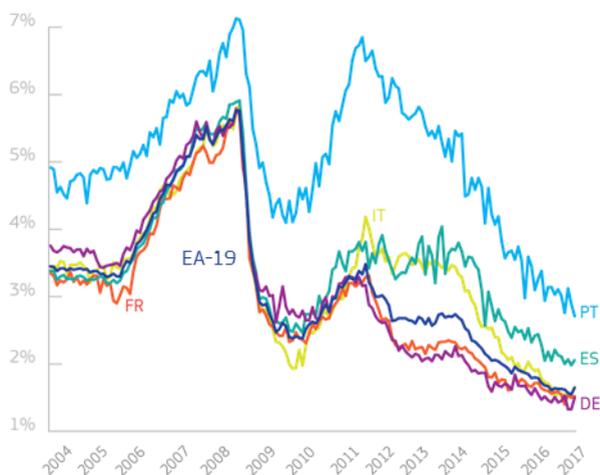
benefits of the euro for all citizens and businesses. This requires structural reforms to modernise economies and make them more resilient to shocks.

3.2. The need to tackle remaining sources of financial vulnerability

The crisis has seen the partial reversal of the financial integration that had been achieved since the introduction of the euro. At the time, the inter-bank lending market was very liquid and the costs of credit to households and businesses had started to converge towards more beneficial conditions throughout the euro area. In the turmoil of the crisis, the euro area banking system became fragile. Lending between banks fell sharply, as did the provision of credit to the real economy. Lending to SMEs was hit hardest in the countries most affected by the crisis, both with tightened lending terms and falling lending volumes. The financing conditions of firms very much depended on their geographical location. The overwhelming reliance on banks as a source of funding and the relative absence of other sources of financing, such as equity markets, exacerbated the problem.

Interest rates on loans to businesses diverged during the crisis

Interest rates in %



Source: European Central Bank

Whilst the situation has improved significantly since the crisis, the interlinkages between risks associated to the banking sector and the levels of national sovereign debt are still present in the euro area today. As a result of the EU banking legislation

adopted in the wake of the crisis, the risks in the financial sector have been substantially reduced. The EU's large banks now have significantly increased liquidity buffers and hold on average a core capital ratio of 13.2 % compared to 8.9 % in 2010. But banks within the euro area still tend to hold substantial amounts of bonds of their “home country” on their books. This leads to a strong correlation between the refinancing costs of banks and their respective sovereigns, and vice-versa. This comes with the risk that if a problem arises in either area, both public finances and the banking sector would be destabilised. Major reforms have taken place to counter these risks but the so-called “feedback loop” between banks and their sovereign is still an issue for financial sector integration and stability.

High levels of public and private debt inherited from the crisis years, as well as large amounts of so-called “non-performing loans” in parts of the banking sector, remain sources of vulnerability. Non-performing loans are loans that are in default or close to default, meaning that there is a very high likelihood that the debtors will not be able to repay them to the banks. The share of such loans has increased in balance sheets of certain banks as a result of the crisis. This still weighs on the profitability and viability of affected institutions, thus hampering their ability to provide financing to the real economy. Writing off these loans comes at a cost that must be borne either by the institutions holding them, by their shareholders or by the public purse. The countries concerned are taking determined action to deal with this matter but reducing large stocks of such loans without adding to social difficulties is a slow and complex process.

Despite significant improvements in recent years, further integration is necessary to ensure the financial system can safely withstand any future crisis. Although financial fragmentation has begun to reverse, the degree of integration still remains well below pre-crisis levels. This limits the ability to unlock additional financing for much-needed investment and constrains the collective capacity to absorb future shocks as they come.

Why further steps towards Financial Union?

Financial stability has been reinforced in the euro area. However, there is still a strong link between banks and their sovereigns and there are still high levels of non-performing loans. Further steps are needed to reduce and share risks in the banking sector and to provide better financing opportunities for the real economy, including through capital markets. The completion of the Banking Union and of the Capital Markets Union is paramount to achieve this.

3.3. The need to tackle high debt and to increase collective stabilisation abilities

The crisis led to a sharp increase in levels of public and private debt, which have now been contained but still remain high. On average, levels of sovereign debt in the euro area increased by 30 percentage points in only seven years – from 64% to 94% over 2007-2014. Even Member States with relatively low deficit and debt levels before

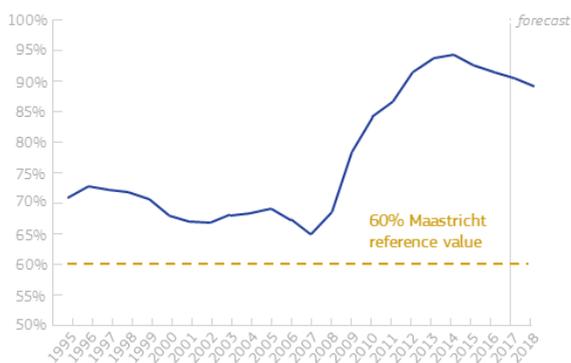
the crisis – such as Spain or Ireland – came under pressure as concerns emerged over the budgetary costs of difficulties in the financial sector and underlying structural fiscal positions turned out to be worse than headline figures had suggested. This showed that the EU fiscal rules of the time were not enough, and that there was a need to monitor closely trends in private debt as well.

Moreover, the crisis exposed the limits of individual Member States in absorbing the impact of large shocks. During the crisis, national budgets, and notably welfare systems, played their role of “automatic stabilisers”, by cushioning the shocks. However, in several countries, the limited availability of fiscal buffers and the uncertain market access to finance public debt meant that this was not enough to counter the recession. This is a major explanation behind the severe dent in the recovery in the years 2011-13. Several new instruments were thus created to provide collective financial assistance to these Member States. These instruments have proved their worth at the height of the crisis and could now usefully be strengthened or complemented.

High levels of public debt will take time to be absorbed, particularly if the recovery is moderate and if inflation is low. These debt levels cause a number of problems. They reduce the capacity to take action in case of another slowdown or to support public investment needs. They constitute a financial vulnerability, especially if the refinancing costs of banks and their respective sovereigns remain correlated. Moreover, diverse levels of debt create differences of views about how to deal with public finances in the euro area as a whole. Thanks to the efforts of recent years, there is a clear trend towards healthier public finances across the board. But further progress remains imperative overall in the euro area.

Public debt in the euro area increased sharply as a result of the crisis

General government gross debt, as % of GDP



Source: European Commission

The EU fiscal rules – the Stability and Growth Pact – have been reinforced over the years, notably to pay greater attention to levels of debt. Progress over time requires both sound fiscal policies at all levels of government and strong and sustained economic growth. It is essential to take account of what makes economic and budgetary sense for the country concerned at the particular juncture of its economic cycle, but also to consider the situation of the euro area as a whole. In particular, it is important to avoid “pro-cyclical” fiscal policies, i.e. to boost growth artificially when it is not needed, or to be recessionary when the circumstances call for the reverse. The need to capture the diversity of circumstances has brought stronger and more sophisticated rules. At the same time, as the rules cannot be tailor-made for every situation, they foresee a margin of judgment. The Commission has made use of it in recent years, with the Council of Ministers endorsing its recommendations. The Commission has also put a greater focus on the fiscal stance of the euro area as a whole.

Why further steps towards Fiscal Union?

The good functioning of the single currency calls for:

- (i) *sound public finances and the existence of fiscal buffers which help economies to be more resilient to shocks;*
- (ii) *complementing common stabilisation tools at the level of the euro area as a whole;*
- (iii) *the combination of market discipline and of a shared rulebook which would allow these rules to be more effective and simpler to understand and operate.*

3.4. The need to increase the efficiency and transparency of EMU governance

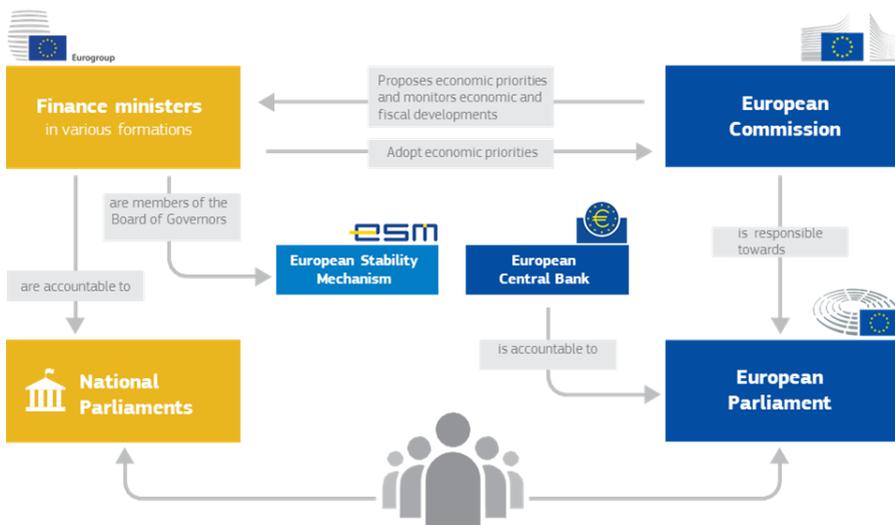
The EMU architecture is based on common legal principles. These spell out its objectives and functioning, the role of the different institutions and the balance of powers between them, as well as between the EU and the national levels. They also spell out the necessary coordination of economic policies, the fiscal rules to be respected, the mechanisms to avoid and correct macro-economic imbalances, as well as the organisation of the Banking Union.

The design of this architecture has been an incremental process for the past thirty years. While the direction was clear, there was no single, overall plan from the outset. As shown by the experience of the last fifteen years, it has too often taken the onset of a crisis to build the collective awareness and political will needed to act together to improve the EMU construction. This largely explains the current state of play, including the remaining weaknesses. The overall governance has improved but remains sub-optimal to allow the euro area to perform as well as it could, to be as responsive as it should be to changing economic circumstances and economic shocks, and to win over the mistrust of some parts of the population. Three main weaknesses can be identified.

First, the governance of the EMU is still unbalanced in many ways. Monetary policy is centralised at the euro area level. Yet, it is coupled with decentralised budgetary and sectoral policies that mainly reflect national circumstances and preferences. This is combined with another mismatch in terms of instruments: on the one hand, the strong, necessary (although often too complex) fiscal rules, leading to possible sanctions; on the other, soft economic guidance provided at EU level through its process of coordination of economic policies, the so-called “European Semester”. Such a governance construct has too often contributed to a lack of progress in very much needed structural reforms and investment. This overburdens monetary policy with the responsibility of cushioning and counterbalancing economic developments. As a result, Member States, business and citizens are not able to reap the full benefits from the EMU.

Second, the institutional architecture of the EMU is a mixed system which is cumbersome and requires greater transparency and accountability. It balances, albeit imperfectly, Union institutions and ways of working with an increasing number of intergovernmental bodies and practices, many of which have emerged since the crisis. This “in-between” governance partly reflects the lack of trust among Member States, as well as towards the EU institutions. This results in multiple and complex “checks and balances”. It also reflects the fact that many new rules or bodies were established in an ad hoc manner over time, often in response to emergencies. This is best illustrated in the interplay between the Eurogroup, the European Commission and the European Stability Mechanism. While every institution and body strives for greater legitimacy and accountability, in practice this means complex decision-making, criticised for not being understandable and transparent enough. Most notably, the involvement of the European Parliament and the democratic accountability for the decisions taken for or on behalf of the euro area should be enhanced.

The governance of the euro area is complex



Source: European Commission

Third, the common interest of the euro area is still not sufficiently represented in public debate and decision-making. Without a common understanding of the challenges or vision of the future, the euro area will struggle to overcome the legacies of the crisis and will not make progress on the tools it needs to address common challenges.

Why further steps towards a better governance?

A stronger EMU requires a stronger governance. The current system reflects an accumulation of decisions of the past. This limits the effectiveness of common institutions and tools, and it translates into complex and intransparent arrangements. This is sub-optimal in light of the need for greater convergence and to anticipate future shocks. A common understanding of the possible way forward is needed to cement a better EMU architecture.

4. Reflections on a possible way forward

Member States of the euro area form a diverse group. There will never be a single approach or a “once and for all” common understanding of how to advance best the EMU. The shared goal is, however, to strengthen the single currency and tackle together issues of common interest that go beyond national borders. The challenge is now to turn ideas into practical solutions and to identify a way forward that is pragmatic and flexible, yet effective for all.

4.1. Guiding principles for the deepening of the Economic and Monetary Union

Four principles should guide the way forward:

- **Jobs, growth, social fairness, economic convergence and financial stability** should be the main objectives of our Economic and Monetary Union. The EMU is not an end in itself.
- **Responsibility and solidarity, risk reduction and risk-sharing go hand-in-hand.** Greater incentives for risk reduction and conditional support should go together with designing risk-sharing measures, especially in the financial sector, and the conduct of structural reforms.
- **The EMU and its completion must remain open to all EU Member States.** The integrity of the single market must be preserved. This is also key for a well-functioning single currency. According to the Treaty, except for Denmark and the United Kingdom, all EU Member States are expected eventually to join the euro.
- **The decision-making process needs to become more transparent and democratic accountability needs to be ensured.** Citizens expect to know how and by whom decisions are made and how they impact on their lives.

Guiding principles for deepening the Economic and Monetary Union



Source: European Commission

4.2. Sequencing

Given the differences of views on some of these matters, it is initially important to find broad political consensus on the overall direction of travel. This not only relates to the design of the overall approach, but also to the sequencing of the various steps to be taken in the short, medium and long term. But this is not about a single, take-it-or-leave-it reform. It is rather a set of actions to consider collectively and take forward. The ideas presented here are therefore not a blueprint of the future design of the EMU.

This reflection paper puts forward a number of steps and options to help build a clear vision for a deepened EMU by 2025. In so doing, this paper is an invitation for Member States and stakeholders to discuss and agree on which elements they believe will best help our single currency over time, beyond making full use of the already existing institutions and rules. Certain elements are indispensable and need to be put in place quickly to ensure a resilient EMU. In some areas, work is already ongoing or could be advanced swiftly, with the aim to take action by 2019 at the latest. Thereafter, a number of other elements would need to be addressed by 2025. Those are presented in a more open way and could be decided later, once initial steps have been taken. Preconditions that are necessary before certain steps could be taken are also specified.

Regardless of the details of each step, having an overall roadmap with clear sequencing will be crucial. If our aim is to improve the performance of the euro area to deliver on jobs and growth while at the same time safeguard and strengthen financial market stability, the sequence of further measures, in particular in the financial sphere, is not neutral. It must follow a certain logic, to avoid that new initiatives result in new uncertainties. In order to find the right balance, some measures will need to be agreed together upfront, even if their actual implementation would come later. Annex 1 sketches out a possible roadmap.

The options presented here would involve taking steps in three key areas: first, completing a genuine Financial Union; second, achieving a more integrated Economic and Fiscal Union; and third, anchoring democratic accountability and strengthening euro area institutions.

4.3. A genuine Financial Union – advancing in parallel on risk-reduction and risk sharing

An integrated and well-functioning financial system is essential for an effective and stable EMU. Building on the momentum of what has already been achieved in recent years, a consensus needs to be found on the way forward. This includes elements that are already on the table but also agreement on what additional steps to take between now and 2025. Progress will need to be made in parallel on both so-called “risk reduction” and “risk-sharing” elements.

Which elements should be agreed by 2019?

Reducing risks

Measures to reduce risks further should be prioritised. As an immediate step, in November 2016, the Commission proposed a comprehensive package to reduce risks carried by banks by further reinforcing prudential management and by strengthening market discipline. The Commission also suggested measures in relation to insolvency, restructuring and second chance. These need to be concluded swiftly.

A European strategy for non-performing loans could help to address one of the most damaging legacies of the crisis and support national actions in the countries concerned. If not tackled, non-performing loans will continue to weigh on the performance of the euro area banking sector at large and will remain a potential source of financial fragility. There is a clear commitment by the Council to agree on a comprehensive strategy by June this year with clear targets, timetables and a monitoring mechanism. However, a comprehensive toolbox and practical

implementation on the ground will also be needed. The strategy should address the existing stock of non-performing loans and prevent the build-up of new ones. It should encompass resolute, coordinated action at the EU level and comprise elements of various key policy areas – such as strengthening supervisory practices, measures to develop a secondary market for non-performing loans, reforming national legal frameworks and addressing structural issues, and further restructuring of the banking sector.

Within the European Semester, the Commission assesses regularly challenges in Member States' financial sectors. These assessments lead to specific recommendations for reforms where necessary to reduce risks to financial stability or improve access to finance. In the same spirit, the Commission is currently carrying out a benchmarking exercise to shed light on the features of loan enforcement and insolvency systems which have an impact on banks' balance sheets. These measures contribute to addressing risks in national banking systems and could be further enhanced (see also section 4.4 below).

Completing the Banking Union

Two key components of the Banking Union remain outstanding, which would allow making progress on risk-sharing in parallel: a common fiscal backstop for the Single Resolution Fund and a European Deposit Insurance Scheme (EDIS). These should now be agreed as soon as possible – ideally by 2019 – with a view to be in place and fully operational by 2025. Both elements are essential to mitigate further the link between banks and public finances. The Commission Communication “Towards the completion of the Banking Union” of November 2015 and the Council's roadmap to complete the Banking Union of June 2016 set out the necessary, already agreed key steps in this regard.

EDIS would make sure that savings in deposit accounts would be better protected and to the same extent across the euro area. EDIS would thus provide a stronger and more uniform insurance cover for all retail depositors in the Banking Union. The EDIS proposal was put forward by the Commission in November 2015 and negotiations are currently ongoing.

A credible fiscal backstop to the Single Resolution Fund is essential to make the new EU framework for bank resolution effective, and to avoid costs for taxpayers. Under this framework, bank resolution is financed by banks' shareholders and creditors, and by a Single Resolution Fund, pre-financed by the banking industry. In the event that serious problems would affect several banks at the same time, the financing needs might however exceed the means available in the fund. Therefore, a fiscally neutral financial backstop to the resolution fund is needed as soon as possible as a tool of last resort. Member States already committed to developing a common

backstop in December 2013 and reiterated this objective in 2015. This should now be implemented without delay.

Due to its critical role in the event of a potential crisis, the common backstop should be designed with certain features in mind. It should be: of an adequate size to be able to fulfil its role; activated in a swift manner; and fiscally neutral so that industry repays any potential disbursements from the fund, and the use of public resources is limited. This also means that, by definition, no room should remain for national considerations or segmentation. Unnecessary costs should be avoided when it comes to the financial and institutional architecture.

Two options can be considered in this context:

- **From the point of view of effectiveness, a credit line from the European Stability Mechanism (ESM) to the Single Resolution Fund** would meet the conditions indicated above. The ESM has the lending capacity, market operations knowledge and creditworthiness required to fulfil the common backstop function effectively. However, some decision-making procedures and technical provisions in the ESM may need to be streamlined so that the backstop could be activated in time and ensure maximum cost efficiency for the Single Resolution Fund.
- **A less effective option would be for Member States to provide simultaneously either loans or guarantees for the Single Resolution Fund.** This approach would probably lead to difficulties in mobilising the committed funds in case of a crisis, making it potentially less effective when most needed. While the backstop should be fiscally neutral in the long-term, Member States would still need to re-finance the financial support provided. Implementation challenges would also arise, with each Member State having to sign agreements with the Single Resolution Board.

Delivering the Capital Markets Union

Progress on the Capital Markets Union (CMU) is paramount to help provide more innovative, sustainable and diversified sources of funding for households and businesses, such as through increased access to venture capital or equity financing and less focus on debt. As such, the CMU will increase risk-sharing via the private sector and the overall resilience of the financial sector. It thereby also contributes to broader macro-financial stability to the economy in case of economic shocks. This applies to all EU Member States, but is particularly important for the euro area. The Commission has made the establishment of a CMU one of its priorities and a number of measures have been taken to this end already. However, this work is now more important than ever. The prospect of Europe's largest financial centre leaving the single market makes the task of building the CMU more challenging, but all the more vital.

A more integrated supervisory framework ensuring common implementation of the rules for the financial sector and more centralised supervisory enforcement is key. As stated in the Five Presidents’ Report, the gradual strengthening of the supervisory framework should ultimately lead to a single European capital markets supervisor.

The CMU is an opportunity to strengthen our single currency, but it is a significant change. To succeed, the commitment of the European Parliament, the Council and all stakeholders is indispensable. Regulatory reform is only one part of the change required to create a new financial eco-system that is truly integrated and less dependent on bank financing. Building a CMU is a process, which needs the full involvement of all parties, including corporates, investors and supervisors. Remaining barriers to a complete CMU, such as taxation rules or insolvency procedures, must also be tackled, including at the national level.

Beyond Banking Union and Capital Markets Union

Greater diversification of banks’ balance sheets would help to address the problem of interconnection between banks and their “home country”. One possibility of promoting more diversification could be the development of so-called sovereign bond-backed securities (SBBS). These financial instruments, currently discussed in the European Systemic Risk Board, are securitised financial products that could be issued by a commercial entity or an institution. There would be no debt mutualisation between Member States. Their use would deliver tangible benefits by increasing the diversification of banks’ balance sheets and by fostering private sector risk sharing. Given the very innovative nature of SBBS, it is likely that issuance would develop only gradually. While changes in the regulatory treatment of securitised assets would help to develop the market for this type of product, changes to the regulatory treatment of the underlying sovereign bonds would not be required. Another possibility to promote more diversification in the long run, as discussed below, would be a change in the regulatory treatment of sovereign debt.

Elements to complete the Financial Union

| Reducing risks and making banks more resilient | |
|---|--|
| November 2016 Banking Package Reinforcing the banking Single Rulebook with further risk-reducing measures | ✓ in place ▶ under negotiation in the European Parliament/Council ▶ commitment to agree on a strategy at the ECOFIN Council of June 2017 |
| Developing a non-performing loans strategy along four key policy areas: (i) Supervision, (ii) Secondary markets, (iii) Structural issues (including insolvency), (iv) Restructuring of the banking system | |
| Completing the three pillars of the Banking Union | |
| Single Supervisory Mechanism | ✓ fully operational |
| Single Resolution Mechanism Single Resolution Board + Single Resolution Fund to be fully mutualised in 2025 | ✓ Single Resolution Board up and running ▶ Fiscal backstop to the Single Resolution Fund to be put in place |
| European Deposit Insurance Scheme | ▶ currently under negotiation in the European Parliament/Council |
| Delivering on the Capital Markets Union | |
| Implementation and mid-term review of Action Plan to promote capital markets integration and establish a full Capital Markets Union by 2019 | ▶ ongoing |
| Review of European Supervisory Authorities – first steps towards a single European capital markets supervisor | ▶ ongoing |
| Beyond Banking Union and Capital Markets Union | |
| Fostering diversification of bank balance sheets, for example through sovereign bond-backed securities | ▶ under assessment |

Source: European Commission

Which elements could be considered beyond 2019?

Beyond 2019, a number of additional medium-term measures could be considered. Such measures must include a continued commitment to completing the CMU and the full implementation of EDIS. However, they could also include possible further steps on the development of a so-called European safe asset¹ for the euro area and the regulatory treatment of government bonds.

Safe assets are essential for modern financial systems. It has been argued that the euro area needs a common safe asset that would be comparable to the US Treasury

¹ Whilst no asset or investment is entirely safe, the notion “safe asset” is used for instruments that represent reliable and attractive storage of value.

bond. A scarcity and the asymmetric supply of such assets can impact adversely on the availability and on the cost of finance for the economy. Sovereign bonds are typically the safe asset in most financial systems.

A European safe asset would be a new financial instrument for the common issuance of debt, which would reinforce integration and financial stability. However, developing a safe asset for the euro area raises a number of complex legal, political and institutional questions that would need to be explored in great detail. The question of debt mutualisation, in particular, is heavily debated, also in light of concerns about weakening incentives for sound national policies. The Commission will further reflect on different options of safe assets for the euro area in order to encourage a discussion on the possible design of such an asset.

A European safe asset

The euro area is an economy as large as the US and its financial market is of a comparable size, but it does not supply an area-wide safe asset on par with US Treasuries. Instead, individual euro area Member States issue bonds with heterogeneous risk characteristics, generating an asymmetric provision of safe assets. Experience has shown that at times of stress, the current structure of the sovereign bond market and the large exposure of banks to their national sovereign have amplified market volatility, affecting the stability of the financial sector, with tangible and diversified effects on the real economies of the euro area Member States.

A European safe asset, denominated in euro and sizeable enough to become the benchmark for European financial markets, could create numerous benefits for financial markets and the European economy. In particular, it would help diversify the assets held by banks, improve liquidity and the transmission of monetary policy and it would help to address the interconnection between banks and sovereigns.

In recent years, several proposals have been put forward with different design features – ranging from full to partial common issuance, some based on mutualisation and others entailing no joint liabilities. Any further reflections in this complex area would need to focus on the necessary features of such an instrument, to make potential benefits materialise.

Changing the regulatory treatment of sovereign bonds is another issue under discussion to loosen the bank-sovereign loop but which would have important implications for the functioning of the euro area financial system. The regulatory treatment of sovereign debt is a politically and economically complex issue. Like in other advanced economies, EU banking legislation currently foresees the general principle of a risk-free status for sovereign bonds. This is justified by their particular role in funding public expenditure and in providing a low-risk asset for the financial

system of the country concerned. At the same time, such a treatment does not provide any incentives for a bank to diversify its holdings away from home-sovereign bonds. If that treatment was changed, euro area banks would most probably react by sharply reducing their holdings of sovereign bonds. This would disrupt not only the functioning of their home financial systems. It would potentially also impact on financial stability for the euro area as a whole. At the same time, such a reform, if implemented wisely and gradually, could increase incentives for governments to reduce the risk profile connected to their own bonds.

To take both measures forward, a joint political decision on both aspects would be needed. Yet, under all circumstances, and in order to avoid any potential negative impact on financial stability, most importantly, 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 realistically be implemented. If a level playing field for Europe's financial sector is desired, an agreement at the global level would also be essential.

4.4. Achieving re-convergence in a more integrated Economic and Fiscal Union

The lack of strong economic and social re-convergence calls for swift and effective action. Progress on economic convergence is of particular relevance for the functioning of the euro area but is equally important for the EU as a whole.

The Five Presidents' Report recognised the convergence towards more resilient economic and social structures in Member States as an essential element for the successful performance of EMU in the long run. For economies sharing a single currency, having economic structures that are sufficiently responsive in case of shocks, without causing economic or social distress, is particularly important. Structurally, more resilient economies not only do better in times of economic shocks but also more generally. But achieving more convergence towards resilient economic structures is equally important for those Member States in prospect of future euro accession.

Different notions of convergence:

Real convergence: Moving towards high living standards and similar income levels is key to achieving the Union's objectives, which include economic and social cohesion alongside balanced growth, price stability and full employment.

Nominal convergence: Nominal indicators, such as interest rate, inflation and exchange rates, government deficit and debt ratios, have been used since the Treaty of Maastricht. Fulfilling essential nominal targets is a prerequisite to becoming a member of the euro area.

Cyclical convergence: *Cyclical convergence means that countries are in the same stage of the business cycle, such as an up or down swing. This is important for EMU because conducting a single monetary policy is harder and possibly less effective if countries are in very different stages of the economic cycle – some will need a more restrictive/expansionary policy stance than others.*

Convergence towards resilient economic structures does not mean harmonisation of policies or situations across the board. There cannot be a “one-size-fits-all” method in an EMU made of Member States with different economic characteristics and at different levels of economic development – from mature large economies, such as Germany, France or Italy, to small economies on a catching-up trajectory, such as most Member States that joined the EU in 2004 or later. It does, however, mean agreeing on a common approach. This is a key question for Member States to discuss as different concepts of convergence entail different implementation tools.

What toolbox for a renewed convergence process?

When looking at how to achieve greater convergence, the euro area Member States could decide to strengthen the different elements already available: the EU-level framework, the economic policy coordination and the use of funding. They could also decide to improve the capacity for macroeconomic stabilisation of the euro area, which would help to prevent further divergence in cases of future shocks. All of this would benefit from greater capacity building.

Using the EU-level framework to converge

European economic integration provides the right framework for convergence. The single market, including the guarantee for the free movement of goods, services, capital and persons, is a powerful engine for integration and the creation of shared growth and prosperity across Member States. Flanked by the Digital Single Market, the Energy Union, and combined with the Banking and Capital Markets Union, it provides the fundamental common framework for convergence in the European Union, including euro area countries. Member States’ commitment to deepening and strengthening the single market is essential to reap the full rewards.

Strengthening the coordination of economic policy

National policies matter for convergence, but their coordination under the European Semester is essential to maximise their effectiveness. Many policy areas that are decisive for economic resilience remain primarily in the hands of the Member States, such as employment, education, taxation and the design of welfare systems, product and services markets, public administration and the judicial system. The

European Semester can and should remain the core vehicle for further steps towards stronger convergence and more effective coordination of such policies, both for the euro area countries and the other EU Member States. The European Pillar of Social Rights will also provide a renewed compass for many such policies towards better working and living conditions. It sets out a number of key principles and rights to support fair and well-functioning labour markets and welfare systems. Aligning Member States' business taxation frameworks as envisaged with the proposed Common Consolidated Corporate Tax Base, would also help to drive convergence by facilitating cross-border trade and investment.

Before 2019, the European Semester could be reinforced further. Building on the efforts over the last two years, the Commission will look into ways to:

- foster further cooperation and dialogue with Member States, involving also national parliaments, social partners, National Productivity Boards and other stakeholders, to ensure stronger domestic ownership and encourage better reform implementation;
- increase further the focus on the aggregate euro area dimension, with a stronger role for the euro area recommendations. This would ensure a better correlation between the reform needs from a euro area-wide perspective and the reform priorities of national governments;
- make a closer link between the yearly process of the European Semester and a more multi-annual approach to reforms of national governments.

Such improvements could provide Member States with a clear picture of persisting divergences as well as the means to ensure proper re-convergence.

In addition, the Five Presidents' Report envisages a formalised and more binding convergence process based on agreed standards. Such a set of standards could include measures to improve the quality of public spending; investment in education and training; embracing more open and more competitive products and services markets, and creating fair and efficient tax and benefit systems. These could be combined with minimum social standards, as envisaged in the European Pillar of Social Rights. The binding nature of such standards could only be acceptable if compliance could be strengthened by a strong link between related reforms, the use of EU funds and access to a potential macroeconomic stabilisation function. The monitoring of progress towards convergence could be embedded in the surveillance system of the European Semester, building on existing scoreboards and benchmarks.

Reinforcing links between national reforms and existing EU funding

In the current programming period of the EU financial framework for 2014-2020, a stronger link was introduced between the priorities of the European Semester

and the use of the European Structural and Investment (ESI) Funds. In designing the national and regional programmes co-financed by these Funds, Member States needed to address all relevant country-specific recommendations. Existing rules also allow the Commission to request Member States to review and propose amendments of the programmes. This could be necessary to support the implementation of new, relevant Council recommendations or to maximise the growth and competitiveness impact of the ESI Funds.

While the use of the ESI funds is important for certain Member States to foster economic and social convergence, the EU budget is not designed to play a macroeconomic stabilisation function. For certain economies, the ESI funds play an important stabilisation role, especially during times of an economic downturn, as it provides a constant and predictable flow of financing. However, the stabilising impact of the EU budget on the euro area as a whole is heavily constrained by its size (only close to 1% of the total EU GDP). Moreover, the EU budget is more geared to fostering convergence over time (currently over a seven-year time period) and is not particularly designed to take account of the specific needs of the euro area.

The following options could be considered in order to strengthen the links between the EMU objectives in terms of reforms and convergence, and the EU fiscal tools:

- **As a first step by 2019, ways could be considered to strengthen the stabilisation features of the existing EU budget.** This could be done, for instance, by modulating co-financing rates more systematically according to the economic conditions in Member States. However, one must also recognise that, given the limited size of the EU budget in comparison to most Member State economies, the overall macroeconomic stabilisation properties of such an approach remain limited by definition (see other options for macroeconomic stabilisation below).
- **Looking ahead, the link between policy reforms and the EU budget could be strengthened to foster convergence.** This could take the form of either a dedicated fund to provide incentives to Member States to carry out reforms or by making the disbursement of the ESI Funds, or part of them, conditional on progress in implementing concrete reforms to foster convergence. Reform implementation would be monitored within the framework of the European Semester. As part of the follow-up to the White Paper on the Future of Europe, the Commission will also come forward with a reflection paper on the future of EU finances in the coming weeks.

A macroeconomic stabilisation function

The Five Presidents' Report also envisages the creation of a macroeconomic stabilisation function for the euro area.

- **Key principles.** A common stabilisation function would bring numerous benefits to the euro area. It would complement the national budget stabilisers in the event of severe asymmetric shocks. It would also allow running smoother aggregate fiscal policies for the euro area in unusual circumstances when monetary policy reaches its limits. The guiding principles for such a function, as specified in the Five Presidents' Report, remain valid. The function should not lead to permanent transfers, minimise moral hazard, and not duplicate the role of the European Stability Mechanism (ESM) as a crisis management tool. It should be developed within the EU framework and could be open to all EU Member States. Access to the stabilisation function should be strictly conditional on clear criteria and continuous sound policies, in particular those leading to more convergence within the euro area. Compliance with EU fiscal rules and the broader economic surveillance framework should be part of this. Any decision to set up such an instrument would need to take due account of possible legal constraints.
- **Possible goals.** A macroeconomic stabilisation function for the euro area can take different forms. In the public debate, several avenues for a stabilisation function are being discussed, including the creation of a euro area fiscal capacity. The two main areas where such a function could be explored would be the protection of public investment from economic downturn and an unemployment insurance scheme in cases of a sudden rise of unemployment level. It will have to be explored whether certain designs might need to be reflected in the next EU Multiannual Financial Framework (MFF).
- **Financing.** In designing this future function, Member States would also need to decide on its financing mechanism. In doing so, they could decide to use existing instruments, such as the ESM after necessary legal changes, or the EU budget if these elements were to be integrated in the next MFF. Member States could also decide to design a new instrument for these specific goals, using a dedicated source of financing, such as national contributions based on a share of GDP or a share of VAT, or revenues from excises, levies or corporate taxes. The macroeconomic stabilisation properties would depend also on the capacity to borrow.

The Commission will look into concrete options for a macroeconomic stabilisation function for the euro area. This will encourage a discussion on the specific design of such a function, and prepare the Commission and Member States for putting in place such a capacity at the latest by 2025.

Different options for a stabilisation function

A European Investment Protection Scheme would protect investment in the event of a downturn, by supporting well-identified priorities and already planned projects or activities at national level, such as infrastructure or skills development. In an economic downturn, public investment is usually the first item to be cut in the national budget. This amplifies the economic crisis and risks permanent negative effects on growth, employment and productivity. With the protection scheme, which could be in the form of a financial instrument, investment projects could still be continued. As a consequence, firms and citizens could overcome the crisis more quickly and more robustly.

A European Unemployment Reinsurance Scheme would act as a "reinsurance fund" for national unemployment schemes. Unemployment benefits are an important part of the social safety net and their uptake tends to increase in a downturn, when resources are constrained by the need to contain fiscal deficits. The scheme would provide more breathing space for national public finances and help to emerge from the crisis faster and stronger. The unemployment reinsurance scheme would, however, probably require some prior convergence of labour market policies and characteristics.

A rainy day fund could accumulate funds on a regular basis. Disbursements from the fund would be triggered on a discretionary basis to cushion a large shock. Its effects would be similar to the two options above. A rainy day fund, however, would normally limit its payments strictly to its accumulated contributions. Its capacity might thus be too small in case of a large shock. Alternatively, the fund could be equipped with the capacity to borrow. This would need to be accompanied by a design that clearly provides for savings at other times and limits indebtedness.

There is also an ongoing debate about a dedicated euro area budget. Some ideas go well beyond a funding mechanism and are not only targeted to mitigating economic shocks. A euro area budget could ensure broader objectives, covering both convergence and stabilisation, and would need a stable revenue stream. It may rather be a longer-term goal, taking also into account the relationship with the general EU budget over time with an increasing number of euro area countries.

Capacity building

Technical assistance has a central role to play to support capacity development and spur convergence across Member States. The recently founded Structural Reform Support Service within the Commission complements existing support instruments, for instance the technical assistance of the ESI Funds, made available through the EU budget. The Commission provides further hands-on assistance through the organised sharing of good practice examples, the cross-examination and benchmarking of policy performance across Member States, and supporting the development of common principles for policy approaches in areas such as investment conditions, administrative capacity, and pension reforms. All these efforts help to support convergence and progress towards more resilient economic structures throughout the EU.

Looking ahead, the EU's capacity for technical assistance could be expanded to assist Member States in the implementation of targeted reforms that are key for convergence and achieving more resilient economic structures. This technical assistance could further enhance the effective use of the EU budget for reforms.

4.5. Strengthening the EMU architecture and anchoring democratic accountability

What political and legal framework for the EMU?

A stronger EMU can only happen if Member States accept to share more competences and decisions on euro area matters, within a common legal framework.

Several models are possible: the EU Treaties and the EU institutions, an intergovernmental approach, or a mixture of both as is already the case today. It should be clear that further political integration should proceed in an incremental way. This should happen in parallel and in support of other concrete steps in completing the EMU, leading to necessary legal changes either in the EU Treaties or in international treaties, such as the Fiscal Compact and the ESM Treaty, with the political constraints that this process entails.

It is foreseen that the relevant provisions of the Fiscal Compact are to be integrated into EU law. This was agreed by 25 EU Member States when they concluded the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). The integration of the ESM Treaty into the EU legal framework is not foreseen in any EU legal provisions, but could be a necessary step, depending on the model chosen by Member States for future instruments and financing mechanisms.

Finally, the relationship between the euro area countries and other EU Member States is fundamental for the future of the EMU. It is the view of the Commission that all Member States have an interest in designing the future of the EMU. This triggers a debate on the decision-making process. Some argue that mechanisms should be set up to allow euro area Member States to take decisions amongst themselves, with a strengthening of the Eurogroup, and in the European Parliament. This political question might be less of an issue as more Member States join the euro over time. In the meantime, transparency vis-à-vis current non-euro area Member States on further steps of deepening EMU is essential.

How to promote the general interest of the euro area?

A stronger EMU also requires institutions that take account of the general interest of the euro area, make the necessary proposals and act on its behalf.

A new balance could be established between the Commission and the Eurogroup. The Commission is – and should remain – in charge of promoting the general interest of the Union as a whole. By contrast, further steps in the integration of the euro area could require rethinking the balance between its main actors, namely the Commission and the Eurogroup and its Chair. Conferring decision-making competences to the Eurogroup could be a way forward and could in turn justify the appointment of a full-time permanent chair. In the long term, given the growing relative size of the euro area within the Union, the Eurogroup could eventually be turned into a Council configuration. Moreover, the functions of a permanent Eurogroup Chair and of the Member of the Commission in charge of the EMU could be merged.

Stronger internal governance of the euro area should be mirrored by an increasingly unified external representation. The President of the European Central Bank is a key figure globally and already speaks in support of the monetary policy and the euro. However, in the international financial institutions, such as the IMF, the euro area is still not represented as one. This fragmented voice means the euro area is punching significantly below its political and economic weight as each Member State speaks individually, without the general interest perspective. Member States should adopt the proposal made by the Commission to unify their representation by 2019 to achieve a fully unified external representation in the IMF by 2025.

How to reinforce democratic accountability?

Completing the EMU also means greater democratic accountability and higher transparency about who decides what and when at every level of governance. The European Parliament and national parliaments need to be equipped with sufficient powers of oversight, following the principle of accountability at the level where decisions are taken.

Currently, the EU Treaties do not provide much detail about democratic accountability on euro area matters. The Commission has developed a very effective regular dialogue with the European Parliament on these matters, including on matters related to the European Semester and the Stability and Growth Pact. As an immediate improvement, these practices could be formalised by the two institutions before the end of 2018. Such arrangements could be further extended to other institutions and bodies taking decisions on or acting on behalf of the euro area, starting with the Eurogroup, whose members would also remain accountable to their national parliaments.

These arrangements could be translated into an agreement on the democratic accountability of the euro area, signed by all the above mentioned actors in time for the next European Parliament elections in June 2019. Further down the road, this agreement could be integrated into the EU Treaties.

What institutions and rules for a fully-fledged EMU?

The EMU is an original architecture and does not necessarily need to copy other international or national models. That being said, the optimal functioning of the EMU would require further institutional developments to complete its architecture.

The idea of a euro area Treasury is discussed in the public debate. The Commission already today carries out central economic and fiscal surveillance tasks. One could envisage that, at a later stage of the deepening of EMU, within the EU framework, several competences and functions could be regrouped under a single umbrella. Economic and fiscal surveillance of the euro area and of its Member States could be entrusted to a euro area Treasury, with the support of the European Fiscal Board, the coordination of issuing a possible European safe asset, and the management of the macroeconomic stabilisation function.

The Treasury would be tasked with preparing decisions and executing them at the level of the euro area. In order to ensure an appropriate balance of powers, decision-making would be attributed to the Eurogroup. With more decisions taken at the euro area level, it will also be essential to ensure greater parliamentary control of common economic, fiscal and financial instruments and policies. Eurogroup members, as finance ministers in their Member States, remain accountable to national parliaments.

The Treasury could bring together existing competences and services that are today scattered across different institutions and bodies, including the ESM after its integration into the EU legal framework. It could be placed under the responsibility of an EU Finance Minister, who would also be Chair of the Eurogroup/ECOFIN.

The idea of a European Monetary Fund is also debated to give the euro area more autonomy from other international institutions, when it comes to financial

stability. Member States would need to discuss this further and decide its possible goals, design and financing. The European Monetary Fund would naturally build on the ESM, which has become a central instrument to manage potential crises in the euro area and which should be integrated into the EU legal framework. The functions of a European Monetary Fund would thus encompass at least the current liquidity assistance mechanisms to Member States and possibly the future last resort common backstop of the Banking Union.

Key functions of a possible Euro Area Treasury and European Monetary Fund

In bold: activities existing in the current setup



Source: European Commission

Stronger economic, fiscal and financial integration over time would also open the door to review the set of EU fiscal rules. While some see the rules today as too lax, others see them as unduly constraining. Everybody agrees, however, that they have become excessively complex, which hinders ownership and effective implementation. Over time, greater integration providing for adequate safeguards and greater channels to manage economic interdependence together with stronger market discipline would allow for simpler fiscal rules.

5. Conclusion

The euro is a great achievement, strongly supported by Europeans. We must cherish and preserve it. But it is still far from perfect and is in need of reforms to help it deliver even better for all of us. This requires political determination, leadership and courage.

Important lessons have been drawn from the past fifteen years and the economic situation is improving. However, it would be a mistake to consider the status quo as satisfactory. The euro is neither the origin of nor the *only* solution for the challenges faced today by Europeans. Yet, the euro creates specific opportunities and responsibilities of which we must be fully aware. In a globalised world, it provides us with benefits that national currencies and economies alone could never do. It protects us against global volatile exchange rates and is a strong player on the global currency markets. It oils the engine of the EU internal market. It is the best insurance policy for our savings and pensions against inflation.

There is by now growing awareness that further steps towards completing the Economic and Monetary Union are needed. To guide the work ahead, it is important first to agree on the objective and guiding principles for the way forward. The objective should be obvious: the euro needs to strengthen its role as a source of shared prosperity, economic and social welfare, based on inclusive and balanced growth and price stability.

The importance of the task at hand requires appropriate sequencing. 2025 is not such a distant future. The Commission proposes to move forward in two steps. Annex 1 provides a summary.

The first phase runs to the end of 2019. This time should be used for completing the Banking Union and Capital Markets Union with those elements that are already on the table today. This includes the financial backstop to the Single Resolution Fund, measures to reduce risks in the financial sector further, and the European Deposit Insurance Scheme. A number of new instruments, such as better economic and social convergence standards, could also be tested. The democratic accountability and effectiveness of the EMU architecture would be gradually improved.

The second phase, over 2020-25, would be for completing the EMU architecture. It would include more far-reaching measures to complement the Financial Union, possibly with a European safe asset and a change in the regulatory treatment of sovereign bonds. Additionally, a fiscal stabilisation function could be envisaged. As a result, the institutional architecture could be changed more substantially.

This reflection paper is an invitation for everyone to express their views on the future of our Economic and Monetary Union, as part of the broader debate on the future of Europe. The way forward must be built on a broad consensus and take into account the global challenges ahead. In this regard, the reflection papers on the social dimension of Europe and harnessing globalisation, as well as the upcoming reflection paper on the future of EU finances, also feed the discussion on the future of our EMU.

It is time to put pragmatism before dogma, to put bridge-building before individual mistrust. Fifteen years after the launch of the euro, ten years after the crisis hit us, it is time to look afresh at where our Union should be in the next decade, and to lay the common ground for such a future.

2. PROPOSALS FOR DEEPENING THE ECONOMIC AND MONETARY UNION

2.1. EXTERNAL REPRESENTATION

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

A roadmap for moving toward a more consistent external representation of the euro area in international fora

[COM(2015)602 final, 21.10.2015]

1. INTRODUCTION

In order to complete the 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 euro area is a large open economy with international policy responsibilities.

The economic and financial weight of the euro area¹, 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. The euro is a successful and stable currency. It is shared by 19 EU Member States and more than 330 million citizens. It has provided its members with price stability and shielded them against external instability. Despite the recent crisis, it remains the second most important currency in the world, with a share of almost a quarter of global foreign exchange reserves, and with almost sixty countries and territories around the world either directly or indirectly pegging their currency to it.

¹ The Union when exercising its competences specific to the Member States whose currency is the euro in accordance with the Treaties (Title VIII, Chapter 4, TFEU).

The political relevance of the euro area has been greatly enhanced in recent years. The European Semester, along with adoption of the so-called six-pack and two-pack legislation² as well as the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union³ have integrated, strengthened and broadened EU-level surveillance of Member State policies in essential areas of macroeconomic and budgetary relevance. The European Stability Mechanism was established as the permanent crisis resolution mechanism for the countries of the euro area. The Union has also put in place a Banking Union with centralized supervision and resolution for banks in the euro area *and* open to all other Member States.

The external representation of the Union, when exercising its competences specific to the euro area (hereinafter referred to as "external representation of the euro area"), has not kept up with those developments. This limits the effectiveness of the euro area voice in the international financial institutions. The progress that has been achieved on further internal integration of the euro area needs to be projected externally, notably through progress towards united external economic representation. The external representation needs to be made more coherent 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. This concept was already highlighted as one of the key priorities in the Commission's Blueprint for a Deep and Genuine Economic and Monetary Union⁴.

The Five President's report of June 2015 on the future of the Economic and Monetary Union⁵, further stressed that a strengthened international voice is an integral part of the ongoing efforts to improve the economic governance of the euro area. And as the EMU evolves towards Economic, Financial and Fiscal Union, its external representation should also be increasingly unified.

The European Parliament has also called for a unified external representation of the euro area⁶.

² http://europa.eu/rapid/press-release_MEMO-13-318_nl.htm.

³ Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union, 1 February 2012: <http://www.consilium.europa.eu/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/>.

⁴ A Blueprint for a deep and genuine economic and monetary union - COM(2012) 777, 30.11.2012, http://ec.europa.eu/archives/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf.

⁵ Five Presidents' Report "Completing Europe's Economic and Monetary Union", 22 June 2015, http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf".

⁶ European Parliament resolution of 25 October 2011 on Global Economic Governance (2011/2011(INI), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P7-TA-2011-0457+0+DOC+PDF+V0/EN>.

Considerable progress has been made in strengthening the Union and the euro area external representation in many international economic and financial fora, but further steps are needed to achieve a truly unified external representation.

This Communication therefore sets out a roadmap towards an increasingly unified external representation of the EMU around which a consensus in the Council and in the European Parliament could be shaped. This process should take place gradually

External representation of the euro area is still particularly fragmented in the International Monetary Fund (IMF), which through its lending instruments and surveillance is a key institutional actor in global economic governance. The Commission therefore puts forward in parallel a legal proposal laying down measures in view of establishing a unified representation of the euro area in the IMF. This does not prejudge future developments that could call for a further strengthening of euro area representation also in other international fora.

2. CURRENT EURO AREA REPRESENTATION IN INTERNATIONAL FORA

Despite important euro area interests, external representation of the euro area at the **IMF** is, for the moment, highly fragmented and not very effective.

The IMF, through its lending instruments and surveillance, is an essential pillar of global economic and financial governance. It has played a key role, together with the Commission and the ECB, in shaping the programmes aimed at rescuing Member States hit by the sovereign debt crises. In addition, the strengthened governance framework for economic policy coordination and strong convergence of financial sector regulation and supervision in the context of the Banking Union mean that, in the future, the IMF will need to go well beyond a national perspective in its assessment of supervision and crisis management in the euro area. An effective euro area representation would allow delivering a single euro area message at the IMF on issues such as economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability. A more coherent representation would also be to the benefit of third countries, in particular by a stronger and more consistent euro area contribution to global economic and financial stability.

Against this background, this communication and the legal proposal adopted together with it focus on the IMF as a first step in strengthening the external representation of the euro area.

The objective of ensuring an adequate representation of the Union in general and the euro area in particular obviously goes beyond the IMF and is relevant also in a number of other international fora, of which some are mentioned below.

Adequate representation in the **G7** and the **G20** gives the Union and the euro area the means to provide input into the global policy agenda and to promote European solutions to global challenges in key areas such as macroeconomic policy coordination, financial regulation reform and tax transparency. At the G7 Leaders level, the Union and euro area are represented by the President of the European Council and the President of the Commission. At the G7 Finance Ministers and Central Bank Governors level, the euro area is represented by the Eurogroup President, the Commission and the European Central Bank (ECB). At the level of the G20 heads of state and government, the Union and euro area are represented by the President of the European Council and the President of the Commission. The Commission and the ECB present the positions of the euro area when the G20 deals with matters of euro area competence at meetings of Finance Ministers and Central Bank Governors.

The **Financial Stability Board (FSB)** coordinates international work on financial regulation and is politically accountable to the G20. The Commission and the ECB are members representing the Union jurisdiction. The Commission is also a member of the FSB Resolution Steering Group. Representation in the FSB gives the means to provide input into the development and implementation of effective regulatory and supervisory policies, as well as to address vulnerabilities affecting financial systems in the interest of global financial stability.

The **United Nations (UN)** in some cases discuss matters of euro area relevance such as recently the framework for international debt restructuring. In 2011, the UN General Assembly (UNGA) adopted Resolution A/65/276 upgrading the observer status of the Union and enhancing its participation rights in the work of the UNGA, inter alia allowing it to make interventions on behalf of the EU (and its Member States) with the same priority as other major groups, to present proposals and to participate in the general debate each September⁷. Besides its enhanced observer status, the Union is a party to more than 50 UN multilateral agreements and conventions signed in the UN framework, as the only non-State participant.

The **OECD** regularly organises economic surveys of the euro area. The Union has a specific status at the OECD and enjoys the same prerogatives as members, with two exceptions. The Union does not have the right to vote and does not make a statutory contribution to the OECD budget. The Union is a full member of a number of OECD committees, including the Development Assistance Committee.

There is no specific euro area focus in the work of the **World Bank**. The Union as such is not represented on the Board of Directors of the World Bank. The Commission has observer status in the Development Committee (i.e. Ministerial level).

⁷ http://www.unbrussels.org/images/pdf/2011/A_RES_65_276.pdf.

Overall, with the exception of the IMF, representatives of the Union and/or the euro area are present in each of the above fora that have a specific euro area focus. However, that has not always ensured that the euro area speaks with a single voice. Euro area interests are represented in a particularly effective manner when positions are well coordinated beforehand, but in practice that is not always the case.

Given the dynamic nature of the global financial architecture, an appropriate external representation of the euro area should also be applied to newly emerging international financial institutions. The issue of the external representation, for example, has also come up in the context of the discussions on the formation of new constituencies at the Asian Infrastructure Investment Bank (AIIB), where 14 Member States (10 of which members of the euro area) have been accepted as founding members.

3. OBSTACLES TO A MORE EFFECTIVE EXTERNAL REPRESENTATION AT THE IMF

Today several organisational and institutional obstacles hamper or even hinder effective external representation of the euro area and the delivery of a single message at the IMF.

High fragmentation among Member States

The current fragmentation of the euro area Member States in the IMF Executive Board, where the 19 euro area Member States are at the moment spread over six constituencies⁸ and two single seats, undermines the effectiveness of the euro area representation at the IMF. The euro area Member States that are in constituencies with third countries are often not in a position to support common euro area positions or sign common euro area statements, given divergent views or internal arrangements in their respective constituencies. As a result, Member States are often prevented from voicing common positions on key issues, including on IMF quota, adjustment programmes, surveillance or other policy issues. As a result, euro area representation is weakened, while the efforts to voice common positions are hindered, and with it, the ability to push forward a single euro area agenda and common priorities.

Insufficient representation of the euro area as a whole

At the moment, there is no dedicated representative of the euro area with an official mandate to present and defend euro area policy and interests in the IMF Executive

⁸ An IMF constituency is a group of Fund member countries that are represented by one Executive Director on the IMF Executive Board. The structure of the IMFC also mirrors that of the Executive Board and its 24 constituencies.

Board. This task is currently assumed by the President of the EURIMF⁹. The current set-up does not take into account the significant changes in the internal euro area governance in recent years. Fragmented representation alongside the absence of an official representative of the euro area who would have a clear mandate to represent the euro area in the IMF Executive Board is inconsistent with the increased focus by the IMF on the euro area as a whole, whereby the IMF takes into account the euro area aspects in national surveillance and assesses common euro area policies such as the macro-economic policy mix, financial regulatory reform or issues related to banking union.

At the moment, only the ECB has an observer status at the IMF Executive Board and may participate on certain topics related to its monetary responsibilities. There is therefore room for strengthening the euro area representation, notably by moving to a dedicated representative of the euro area for all topics of relevance.

Insufficient coordination at euro area level

The representation of the euro area at the international level in the context of the Economic and Monetary Union, and in particular on IMF matters, was agreed upon at the Vienna European Council of 1998.

At the moment, coordination takes place only at the Union level and there is no specific coordination at the euro area level. The coordination of common messages on IMF policy issues takes place in the Economic and Financial Committee (EFC) and its permanent Working Group on IMF matters (SCIMF). These common messages are then transmitted to the Member States representatives in the Fund (EURIMF) for the IMF Board meetings. The Member States representatives can then decide to issue common statements. This is done regularly for issues such as the surveillance of the euro area, and the Union Financial Sector Assessment Programme (FSAP). It is, however, not standard for other matters where Member States thus agree on a case-by-case basis. There is also coordination on messages on euro-area programme countries and Article IV consultations with Member States.

Much progress has been made in recent years on coordination, with coordination arrangements further strengthened in 2007, the election of a EURIMF President, the improvement of the working relationship between the EFC/SCIMF and the EURIMF, and the increased coordination among EURIMF members on Executive Board strategies. But current coordination arrangements continue to have limits. There are many examples where coordination on key IMF files has been suboptimal or where the

⁹ Since 1 July 2007, the President of EURIMF is selected by consensus among the representatives of all EU Member States in the IMF for a period of two years, irrespective of the actual Council Presidency. His tasks include preparing and chairing the EURIMF meetings, presenting agreed Union/euro area positions and giving Presidency statements at the Executive Board meetings, as well as serving as liaison to IMF Management. It should be noted however that the primary role of the Executive Director elected as EURIMF President remains to represent his own constituency.

Member States decided to support their national positions rather than defend the common Union position. This weakens the ability of the Member States in the IMF to push forward the issues of a common euro area interest.

4. TOWARDS A MORE CONSISTENT AND EFFECTIVE EXTERNAL REPRESENTATION OF THE EURO AREA IN THE IMF

Given the key role of the IMF in global economic and financial governance, the current situation calls for strengthened coherence and a unified voice of the euro area at the IMF.

Arrangements for a more consistent and effective external representation of the euro area in the IMF should be **set out and agreed without delay, but implemented step-by-step** to allow all actors involved – at the Union and the international level - to make the necessary legal and institutional adjustments.

A **three-pronged approach** should be envisaged: (i) strengthened coordination among the Member States of the euro area; (ii) improved representation of the euro area within the IMF; and (iii) once the necessary adjustments to the IMF governance are made, a unified representation and a single seat for the euro area.

While focused on the euro area, this reinforced euro area representation must nonetheless maintain and where possible further strengthen coordination also with the non-euro area Member States, in order to preserve the integrity of the single market and the Union as a whole. Stronger cooperation needs to take place with other IMF members as well.

1) Strengthening coordination among euro area Member States

a) The current coordination arrangements of the euro area on IMF matters should be strengthened. Member States agreed in 2007 to prepare common euro area statements on issues directly and exclusively related to euro area common policy. This agreement should be strengthened and extended in order to set out the requirement for systematic common statements on all IMF policy, country and surveillance issues of relevance to the euro area. The crisis has shown that it is of utmost importance for the euro area to speak with a single voice in particular on IMF programmes, financing arrangements and crisis resolution policies. Enhanced coordination will enlarge the scope of topics on which the euro area Member States issue common statements to the Executive Board.

Current coordination arrangements and structures should be upgraded as follows:

- (1) **Establish a regular consultation framework:** The Commission and IMF systematic information exchange of documents is based on a 1972 agreement. The Commission intends to update that agreement and to ask for a regular consultation framework to take into account the current situation of joint interest. This implies transmission of documents prepared by staff on horizontal issues concerning the euro area (e.g., Art. IV reports for the euro area and Union/euro area Member States, Financial Sector Assessment Programmes (FSAPs) for euro area Member States as well as documentation related to the Union and euro area programme countries) at the same time as these documents are transmitted to Executive Directors.
- (2) **Upgrade the coordination infrastructure:** The EFC Sub-Committee on IMF matters (SCIMF) should be turned into an EFC Sub-Committee on all International Financial Institutions. At the moment, IMF related topics of relevance for the euro area, are discussed directly in the Eurogroup Working Group (EWG). It should be considered to establish a SCIMF/EFC Sub-Committee in euro area composition. This 'Euro SCIMF' should report to the EWG. Similarly, a EURIMF in euro area composition should be created in Washington, D.C. alongside the EU EURIMF, which exists already now.
- (3) **Update existing coordination arrangements on IMF matters in Brussels:** The current working arrangements on IMF coordination should be strengthened. The scope of coordination should be enlarged to all matters of relevance for the euro area. There should be a requirement to issue more systematically common statements ("common grays") instead of statements by individual Member States. This update could also include a better forward planning on coordination in the form of a common EURIMF/SCIMF work programme, an increased focus on IMF matters in the EFC/EWG and ECOFIN/Eurogroup agendas and a more regular reporting of the EURIMF President to the EFC/EWG. The Eurogroup should issue common statements on IMF issues where a political unified view of the euro area is essential.
- (4) **Enhance coordination in Washington, D.C.:** Changes in working methods in Brussels also have to be reflected in the EURIMF in Washington, D.C. such as: (i) regular EURIMF meetings on matters of euro area relevance based on the IMF work programme. This forward planning should also help guide work in Brussels; (ii) issue systematically common statements; (iii) when common statements are not possible, ensure that common messages on common euro area policies such as fiscal and monetary policy are used in the individual statements issued by Member States; (iii) EURIMF members should agree even more systematically on common Board strategies. Member

States should commit to avoiding expressing views in the Executive Board that contradict each other.

b) Strengthening of the coordination arrangements of the euro area on IMF matters should also go hand in hand with an improved accountability towards the Council and European Parliament. Current statements addressed to the IMF Spring and Annual Meetings should be replaced by a statement from the Eurogroup. The European Parliament should be fully informed about these statements.

2) Improving representation of the euro area through a rearrangement of constituencies at the IMF

Constituencies should be rearranged gradually to create euro area-only constituencies at the IMF. Work to this effect should commence as soon as possible. Such a move would strengthen the voice and the effectiveness of the euro area in the Executive Board. It would also help the euro area become a key actor in shaping IMF policies and strategies.

There is often more common interest at the IMF among Member States and euro area Member States than with other IMF member countries. At the same time, the Union has established a number of very close ties with Union candidate and neighbourhood countries which share common interests. These ties should be kept in the context of a rearrangement of IMF constituencies.

The Council should agree on a common framework with principles for a path for the regrouping of the Union and euro area countries in the IMF to allow for closer cooperation:

- (1) In 2010, advanced European countries committed to reduce their representation in the IMF Executive Board by two seats at the latest by the time of the first IMF Executive Board election after the 2010 quota reform takes effect. A large part of this commitment has already been fulfilled. Member States should deliver the remaining changes in a way that is consistent with the aim of regrouping Member States into euro area constituencies and to strengthen the coherence of representation.
- (2) Once the 2010 reform is ratified, the constituencies of the two large Member States that at the moment still have single chairs - France and Germany - could open up their constituencies to other European countries with appropriate involvement in their governance.
- (3) Several Union and euro area Member States at the moment are grouped together with third countries that often have fundamentally different interests.

Those Member States should aim to move into constituencies of Member States only.

- (4) Euro area Member States should regroup into fewer euro area only constituencies. In addition, all Member States should in the medium term try to move into common constituencies, including – if possible - candidate and neighbouring countries.
- (5) The last step should be that euro area Member States would move together into one single constituency, as set out in Section 3 below.

Member States should agree to discuss in the Council progress made towards greater coherence of the representation of the euro area in the Fund, ahead of each election of the IMF Executive Board, i.e. every two years. Future changes in constituency arrangements should be carried out in a way so as to increase the coherence of the representation of the euro area.

3) Moving towards a unified representation for the euro area

In addition to improved coordination and a rearrangement of constituencies, the Commission is presenting today a legal proposal to achieve a unified euro area representation in order to more effectively progress euro area interests in the IMF Executive Board. This is in line with the considerations in the Five President's report on a greater central steer by the Eurogroup in promoting and representing the interest of the euro area and a future euro area treasury. Once the necessary adjustments to the IMF governance are made, a single seat for the euro area in the IMF should therefore be established. The Commission proposes 2025 as a deadline for the establishment of a single seat.

For the purpose of the proposal for a Council decision laying down measures in view of establishing a unified representation for the euro area in the IMF put forward together with this Communication, the Commission proposes a model whereby Member States would remain individual IMF members. As a consequence, among other things, each euro area Member State will continue to be eligible for IMF borrowing.

A single euro area seat would require (i) rules concerning the internal governance of the euro area constituency or constituencies; and (ii) a coordination mechanism to guide on positions to be taken at the IMF Executive Board on behalf of the euro area. This could rely on upgraded structures in Brussels, including in the Eurogroup and the EWG.

As a transitional arrangement, until achievement of a single euro area seat, the Commission proposes to secure an observership for the euro area in the Executive Board. An observer status of the euro area represented in the Executive Board by the representative of a euro area Member State already member of the Board, supported by the Commission and the European Central Bank, would adequately reflect the role of the euro area in the global economy and the changes to the governance of economic and financial policy that have taken place since the crisis. It would allow a euro area representative to officially represent the euro area in IMF Board meetings that discuss euro area policies, increase the euro area visibility and raise the international profile of the euro area as an important global player. The difference between this representation for the euro area and the current arrangement is the specific mandate which would be given to a single representative for the euro area when elected by the Eurogroup. At the moment, the EURIMF President represents the whole of the Union and is elected by the EU Executive Directors in Washington, D.C. This step would be accompanied by a new agreement with the IMF on information sharing and consultation.

5. REPRESENTATION IN OTHER INTERNATIONAL FORA, IN PARTICULAR AS REGARDS ISSUES RELEVANT TO THE BANKING UNION

As set out in section 2, although representatives of the Union and/or the euro area are present in fora other than the IMF, this has not always ensured that the euro area speaks with a single voice. Euro area interests are represented in a particularly effective manner when positions are well coordinated beforehand, but in practice that is not always the case. The Commission will therefore work towards further improving coordination in all international fora, particularly in areas where the EMU is being deepened further, for example as regards issues relevant to the Banking Union.

The Commission will work with Member States to establish, within the coming months, enhanced mechanisms to coordinate positions for the Financial Stability Board and as appropriate for other relevant standard-setting bodies, as regards the euro area and wherever possible, for the Union as a whole. These mechanisms could include, for example, a stronger commitment to respect common positions established in the relevant EU coordination fora, regular discussions on positions and coordination issues at the highest level within the relevant supervisory or political decision-making bodies, both ahead of and after key international meetings.

6. CONCLUSIONS

The external representation of the euro area needs to be strengthened to allow the euro area to play a more active and singular role in international institutions and fora.

Building on the strengthening of the internal euro area governance that has been achieved, this would represent an important step towards enhancing the weight of the euro area in the global economy. It would give the euro area the opportunity to participate in designing the evolving rules of the international financial architecture, as well as contribute to the completion of the external dimension of Economic and Monetary Union.

As set out above, this communication focuses on the IMF as a first step to strengthen the external representation of the euro area.

To that end, the Commission invites the Council to adopt the decision laying down measures in view of establishing, by 2025 at the latest, a unified representation for the euro area in the IMF; reach a new agreement on the coordination of the euro area on IMF matters, including on accountability and an agreement on a common framework that would regroup euro area constituencies and set principles to deliver on the two seats from the 2010 IMF quota and governance reform; and turn the SCIMF into a fully-fledged EFC Sub-Committee on all International Financial Institutions in Brussels, including with a euro area only formation that would apply also to the EURIMF in Washington, D.C.

The Commission will work towards further improving coordination in all international fora. It will look, in particular, at areas where the EMU is being deepened further. The Commission will work with Member States to establish, within the coming months, enhanced mechanisms to coordinate positions for the Financial Stability Board and as appropriate for other relevant standard-setting bodies, as regards the euro area and wherever possible, for the Union as a whole.

In order to monitor the progress made and identify the need for further improvements, the Commission will regularly report to the European Parliament and the Council. The Commission will also take stock of the situation in this area when presenting its White Paper ahead of Stage 2 of the completion of the EMU in Spring 2017, as foreseen in the Report of the Five Presidents.

Table 1: Overview of Union and euro area representation in relevant International Financial Institutions

| Institution | Current Union status |
|--------------------|---|
| IMF | The Union does not have a formal status in the IMF. The Commission has observer status in the International Monetary and Financial Committee (IMFC), but not in the IMF Executive Board. The ECB has observer status in both the IMFC and the Board. |
| G7 | At the Leaders level, the Union is jointly represented by the President of the Commission and the President of the European Council. For G7 Finance Ministers' meetings, the Union is represented by the Commission, the ECB, and the Eurogroup President. |
| G20 | The Union is a full member of the G20. At the Leaders level, the Union is jointly represented by the President of the Commission and the President of the European Council. For Finance Ministers' meetings, the Union is represented by the Commission, the Council Presidency, and the ECB. |
| FSB | The Union is a full member of the Financial Stability Board. Other FSB members include G20 countries plus a number of other important economies and international organisations. |
| OECD | The Union has a specific status at the OECD which is defined by the Supplementary Protocol No 1 to the Convention of the OECD and interpreted by an opinion of the OECD Legal Service. The Union enjoys the same prerogatives as members, with two exceptions: The Union does not have the right to vote and does not make a statutory contribution to the OECD budget. The Union is a full member of a number of OECD committees, most notably the Development Assistance Committee (DAC). |
| World Bank | The Union as such is not represented on the Executive Board of the World Bank. The Commission has observer status in the Development Committee (i.e. Ministerial level). |
| BIS | The ECB has a full seat in the Bank for International Settlements. BIS membership is restricted to central banks. |
| EBRD | EBRD membership comprises 64 governments, the Union and the European Investment Bank (EIB). The Union as such is a shareholder (3.05% of the total vote) in the Bank. |

PROPOSAL FOR A COUNCIL DECISION

Laying down measures in view of progressively establishing unified representation of the euro area in the International Monetary Fund

[COM(2015) 603 final, 25.10.2015]

EXPLANATORY MEMORANDUM

The euro area is a large open economy with international policy responsibilities. 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.

The political relevance of the euro area has been greatly enhanced in recent years. The European Semester, along with adoption of the so-called six-pack and two-pack legislation¹ as well as the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union² have integrated, strengthened and broadened EU-level surveillance of Member State policies in essential areas of macroeconomic and budgetary relevance. The European Stability Mechanism was established as the permanent crisis resolution mechanism for the countries of the euro area. The Union has also put in place a Banking Union with centralized supervision and resolution for banks in the euro area and open to all other Member States.

At the same time, the external representation of the euro area has not kept up with those developments. The progress that has been achieved on further internal integration of the euro area needs to be projected externally, notably through progress towards united external representation in the International Monetary Fund (IMF). The EU (euro area) has exclusive competence or competence shared with its Members States in many areas covered by the Articles of Agreement of the IMF.

The IMF, through its lending instruments and surveillance, is an essential actor in global economic and financial governance. It has played a key role, together with the Commission and the European Central Bank (ECB), in shaping and implementing programmes aimed at rescuing Member States hit by the financial and sovereign debt crises. In addition, the strengthened governance framework for economic policy coordination and strong convergence of financial sector regulation and supervision in

¹ http://europa.eu/rapid/press-release_MEMO-13-318_nl.htm.

² Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union, 1 February 2012: <http://www.consilium.europa.eu/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/>

the context of the Banking Union mean that, in the future, the IMF will need to go beyond a purely national perspective in its assessment of supervision and crisis management in the euro area.

An effective euro area representation would allow delivering a single euro area message at the IMF on issues such as on programmes and reviews, economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability. A more coherent representation would also be to the benefit of third countries, in particular through a stronger and more consistent euro area contribution to global economic and financial stability.

In October 2014 the Commission announced in its 2015 work programme³ that it intends to address the external representation of the euro area in the framework of deepening the Economic and Monetary Union.

In line with the Five President's report of June 2015 on Completing Europe's Economic and Monetary Union⁴, a strengthened international voice is an integral part of the ongoing efforts to improve the economic governance of the euro area. The report particularly emphasizes shortcomings related to the euro area representation in the IMF where, despite important progress made to further coordinate European positions, the euro area does not yet speak with one voice.

The Commission's Blueprint for a Deep and Genuine Economic and Monetary Union⁵ already set out a number of priority actions for strengthening and consolidating the external economic representation of the euro area. It suggested putting the focus on the IMF because of its key role in the framework of international economic governance. External representation was listed among the priority actions suggested for the short term. The European Parliament has also called for a unified external representation of the euro area⁶.

In 2006, the ECOFIN Council agreed that the move to a single euro area chair in the IMF would be a longer-term goal. In this context, Member States considered that several ways could be envisaged in order to move to a possible single euro area chair in the future, including an approach involving temporary steps.

³ COM(2014) 910: Annex 1 to Commission Work Programme 2015, 16 December 2014, http://ec.europa.eu/atwork/pdf/cwp_2015_new_initiatives_en.pdf.

⁴ Five Presidents' Report "Completing Europe's Economic and Monetary Union", 22 June 2015, http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf.

⁵ A Blueprint for a deep and genuine Economic and Monetary Union - COM(2012) 777, 30.11.2012, http://ec.europa.eu/archives/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf.

⁶ European Parliament resolution of 25 October 2011 on Global Economic Governance (2011/2011(INI), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P7-TA-2011-0457+0+DOC+PDF+V0//EN>).

Against this background, this proposal suggests moving to a unified representation for the euro area in the IMF with the President of the Eurogroup as the representative for the euro area. It proposes a gradual approach for achieving this goal involving intermediate transitional steps for representation in the International Monetary and Financial Committee (IMFC) and the IMF Executive Board. Such transitional steps would involve granting observer rights to the euro area represented by a representative of a euro area Member State already member of the Board, in association with the Commission and the European Central Bank (which has currently observership status in the IMF Executive Board). Furthermore, the coordination process for establishing common positions should be strengthened in order to have systematic common statements on all IMF policy, country and surveillance issues that are of relevance to the euro area.. Finally, these steps should also aim to strengthen cooperation of the euro area with non-euro area Member States regarding IMF issues. It should be noted that the external representation of the euro area will also depend on the future status of the euro area in the IMF that member countries of the IMF would be willing to grant.

- **Legal basis**

Article 138 (2) TFEU foresees the adoption of appropriate measures to ensure unified representation within international financial institutions and conferences. The objective underlying this provision was to achieve a stronger and unified representation of the euro area, given that the effectiveness of the current informal arrangements for representing the euro area was deemed insufficient. As a first step, this provision may be used for the representation of the euro area within the IMF only. Provisions allowing the euro area to better coordinate the establishment of its positions within the IMF should also be included in the proposal as they are necessary and ancillary to the objective of unified representation. Reference is also made to the first paragraph of Article 138 TFEU which enables the Council to establish common positions on matters of particular interests for economic and monetary union within international financial institutions and conferences.

Article 138(3) TFEU provides that, for the adoption of this proposal, only members of the Council representing euro area Member States take part in the vote. The Council acts after consulting the ECB.

At the same time, the Commission decides to withdraw the Commission proposal for a Council decision on the Representation and Position Taking of the Community at International Level in the context of Economic and Monetary Union COM (1998) 637

final which was not adopted and became obsolete since the launch of the euro and the entry into force of the Lisbon Treaty.⁷

2015/0250 (NLE)

PROPOSAL FOR A COUNCIL DECISION

laying down measures in view of progressively establishing unified representation of the euro area in the International Monetary Fund

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 138 thereof,

Having regard to the proposal of the Commission⁸,

Having regard to the opinion of the European Central Bank⁹,

Whereas:

- (1) Appropriate measures may be adopted to ensure unified representation and common positions of the Union when exercising its competences specific to the euro area Member States (the "euro area") within the international financial institutions.
- (2) The euro area is a large open economy with international policy responsibilities.
- (3) The Union has exclusive competence as regards monetary policy for the euro area Member States. Moreover, strengthened Union coordination and

⁷ Proposal for a Council decision on the Representation and Position Taking of the Community at International Level in the context of Economic and Monetary Union – COM(1998) 637 final, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51998PC0637&from=FR>.

⁸ ...

⁹ ...

surveillance mechanisms apply as regards economic, fiscal, and financial policies of euro area Member States.

- (4) As noted by the Report "Completing Europe's Economic and Monetary Union" published on 22 June 2015 ("Five Presidents' Report"), the large economic and financial size of the Union and the existence of a single monetary and exchange rate policy for most of its members, make the Union policy decisions and economic developments increasingly relevant for the world economy. The report also called for consolidation of the external representation of the euro area.
- (5) It is, therefore, imperative that the euro area plays its full role in international monetary, economic and financial policy cooperation, in particular within the International Monetary Fund (IMF), which is a core organisation in the international monetary and financial system.
- (6) However, IMF members are single countries. As a result, the euro area is not represented as a single member in the Fund and its organs. Currently, two of the euro area Member States can each appoint an Executive Director, while the other euro area Member States are spread over six multi-country constituencies. This hinders the euro area from expressing its position effectively and in a unified way within the IMF. It also undermines the effectiveness of the collaboration between the IMF and the euro area.
- (7) The recently strengthened euro area framework for economic policy coordination and strong convergence of financial sector regulation and supervision in the context of the Banking Union mean that in the future the IMF will need to go beyond a national perspective in its assessment of supervision and crisis management in the euro area. An effective euro area representation will also allow delivering a single euro area message at the IMF on issues such as financial assistance programmes and reviews, economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability policy.
- (8) Without prejudice to the possibility of full membership of the euro area, at a later stage, measures should be adopted in order to allow the euro area to speak with one voice within the IMF, taking into account the current IMF membership structure.
- (9) The objective to be pursued should be a unified representation with a single seat for the euro area within all organs of the IMF, while allowing euro area Member States to maintain their current shareholder status in the Fund. The Commission should undertake work to achieve this objective.

- (10) The deadline for attaining such a unified representation in the IMF should correspond to the timeline for the final stage of the process set out in the "Five Presidents' Report" for the completion of Economic and Monetary Union.
- (11) This unified representation should be accompanied by a stronger coordination of the positions to be taken within the IMF, while at the same time aiming for greater cooperation of the euro area with non-euro area Member States in the IMF.
- (12) As long as a unified representation of the euro area within all organs of the IMF is not fully attained, transitional arrangements should be made in order for the euro area to present a more coherent position within the IMF, in particular in the Executive Board of the IMF, and the International Monetary and Financial Committee (IMFC).
- (13) As regards the Executive Board, the current practice of having one of the current Executive Directors of the euro area Member States also representing the interests of the euro area should be formalized. Moreover, since the European Central Bank (ECB), in accordance with Decision No 12925-(03/1) of the IMF under Article X of its Articles of Agreement, already sends a representative as an observer to certain meetings of the Executive Board in view of its tasks in the European System of Central Banks (ESCB), this status of observer of the ECB should benefit the euro area as a whole. Such a single status of observer in the Executive Board for the euro area as a whole would allow covering the full range of euro area matters. This would also allow the euro area to better organize its representation as observer.
- (14) The President of the Eurogroup, the Commission and the ECB should negotiate this observer status of the euro area with the IMF.
- (15) The Commission and ECB are already observers in the IMFC. Current statements addressed to its Spring and Annual Meetings should be replaced by a statement from the President of the Eurogroup for the euro area.
- (16) All efforts should be made for a gradual rearrangement of the euro area Member States in the IMF in order to achieve greater consistency. The Council should agree on principles for a path for the regrouping of the euro area Member States in the IMF.
- (17) At the moment, the coordination of the position of the Member States in view of IMF meetings takes place both in the Economic and Financial Committee (EFC) and its sub-committee on IMF related issues (SCIMF), in Brussels, and in informal meetings between Member State representatives at the IMF in

Washington (EURIMF). Dedicated euro area sub-committees in the EFC should be set up in order to better coordinate the position of the euro area as regards IMF issues.

- (18) Euro area Member States agreed in 2007 to prepare common euro area statements on issues directly and exclusively related to euro area common policy. This agreement should be strengthened and extended in order to set out the requirement for common statements on all IMF policy, country and surveillance issues of relevance to the euro area.
- (19) When a Member State adopts the euro, all efforts should be pursued in order to achieve the necessary adaptations within the IMF.
- (20) All issues that do not have particular relevance to the euro area but to the Union as a whole should be closely coordinated with non-euro area Member States within the EFC or the Council.
- (21) In order to increase transparency and accountability to the European Parliament and the Council, the Commission, in consultation with the Eurogroup and the European Central Bank, should prepare regular reports on coordination on euro area matters in the IMF and other international financial institutions to the European Parliament and the Council,

HAS ADOPTED THIS DECISION:

SECTION 1

DEFINITIONS AND PURPOSE

Article 1

Definitions

For the purposes of this Decision, the following definitions apply:

- (1) 'euro area Member States' means the Member States whose currency is the euro;
- (2) 'euro area' means the Union when exercising its competences specific to the euro area Member States.

Article 2

Purpose

This Decision lays down provisions for the progressive establishment of a unified representation as well as common positions of the euro area within the International Monetary Fund (IMF) until the euro area will have obtained full membership of the IMF.

SECTION 2

**UNIFIED REPRESENTATION OF THE EURO AREA IN THE IMF AND
COORDINATED ESTABLISHMENT OF ITS POSITIONS**

Article 3

Unified representation of the euro area in the IMF

Euro area Member States, supported by the Commission and the European Central Bank (ECB), shall take all necessary actions for the establishment, by 2025 at the latest, of a unified representation of the euro area within the IMF, which shall be based on the following principles:

- in the Board of Governors, presentation of the views of the euro area by the President of the Eurogroup;
- in the International Monetary and Financial Committee (IMFC), representation of the euro area by the President of the Eurogroup;
- in the IMF Executive Board, direct representation of the euro area by the Executive Director of a euro area constituency, following the establishment of one or several constituencies composed only of euro area Member States;
- election of the Executive Director, as referred to above, upon proposal of the President of the Eurogroup and in accordance with the procedure provided for in Article 2 of Protocol No 14 on the Eurogroup, annexed to the Treaties.

Article 4

Coordinated establishment of the positions to be taken by the euro area

When the unified representation envisaged at Article 3 is attained, the following provisions shall apply:

Without prejudice to any common position adopted by the Council pursuant to Article 138(1) TFEU, all positions to be taken, orally or through written statements, within IMF organs shall be fully coordinated in advance within the Council, the Eurogroup, the EFC and/or the Euro Working Group (EWG), as appropriate.

A dedicated support structure shall be established within the IMF in order to support all actors engaged in the unified representation of the euro area in accordance with Article 3.

SECTION 3

TRANSITIONAL ARRANGEMENTS

Article 5

Transitional arrangements

Until unified representation based on the principles listed under Article 3 is fully attained, Articles 6 to 9 shall apply.

Article 6

Representation of the euro area in the IMF Executive Board

1. The euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure with the IMF the status of observer for the euro area within the IMF Executive Board according to the modalities as set out in paragraph 2.
2. The euro area shall be represented in the Executive Board by the representative of a euro area Member State already member of the Board. He/She shall be designated for two and a half years in accordance with the procedure provided for in Article 2 of Protocol No 14 on the Eurogroup

annexed to the Treaties. The Commission and the ECB shall also be able to attend meetings and intervene, as appropriate.

3. An observer office shall be established within the IMF in order to support the exercise of the euro area's observer rights.

Article 7

Representation of the euro area in the IMFC

1. The euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure with the IMF a right for the euro area to address the IMFC. This right shall be without prejudice to the arrangements which the Union as a whole enjoys in the IMF at the moment.
2. In the IMFC, the euro area shall be represented by the President of the Eurogroup, the Commission and the ECB, which shall be able to intervene in IMFC meetings, as appropriate.

Article 8

Euro Area internal coordination as regards constituency arrangements of the IMF

1. All questions related to constituency arrangements of the IMF involving euro area Member States shall be fully coordinated and agreed in advance within the Council, the Eurogroup, the EFC and/or the EWG, as appropriate.
2. The positions taken in relation to constituency arrangements, as referred to in paragraph 1, or changes thereto, shall be consistent with the objectives of increasing coherence of the representation of the euro area and achieving its unified representation within the IMF.
3. In the transitional phase, euro area Member States shall regroup to establish one or several constituencies composed of only euro area Member States.

Article 9

Euro area internal coordination as regards matters of euro area relevance

Without prejudice to any common position adopted by the Council pursuant to Article 138(1) TFEU, euro area Member States shall, within the Council, the Eurogroup, the EFC and/or the EWG, as appropriate, closely coordinate and agree on common positions on all matters of euro area relevance for the IMF Executive Board and Board of Governors meetings and shall use common statements on those issues.

SECTION 4

COMMON PROVISIONS

Article 10

Euro area Enlargement

When the Council decides that a Member State fulfils the necessary conditions for the adoption of the euro, the euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure the necessary changes within the IMF.

Article 11

Coordination with non-euro area Member States

Close cooperation with non-euro area Member States shall be organised within the Council and the EFC, on matters related to the IMF. Common positions shall be coordinated on matters relevant for the European Union as a whole.

Article 12

Reporting

The Commission shall, in consultation with the Eurogroup and the ECB, regularly report on coordination on euro area matters in the IMF and other international financial institutions to the European Parliament and the Council.

Article 13

Addressees

This Decision is addressed to the euro area Member States.

Article 14

Entry into force

This Decision shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the Council

The President

2.2. DECEMBER 2017 PACKAGE: ROADMAP WITH FURTHER STEPS TOWARDS COMPLETING THE ECONOMIC AND MONETARY UNION

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

Further steps towards completing Europe's Economic and Monetary Union: a roadmap

COM(2017) 821 final, 06.12.2017

1. INTRODUCTION

It is almost sixteen years since the first euro coins and notes entered our daily lives. The currency is now used every day by 340 million Europeans in 19 euro area Member States. It is the second most used currency worldwide. Sixty other countries and territories around the world, home to 175 million people, have chosen to use the euro as their currency or to peg their own currency to it.

The financial and economic crisis that hit Europe in 2008, the consequences of which are still felt to this day, did not start in the euro area but it laid bare some of its institutional weaknesses. As an emergency response to the immediate challenges, several instruments were adopted. They provided new financial firewalls, assisted the countries most affected and stepped up policy coordination at EU level. They strengthened the fiscal and financial rules in order to prevent the crisis from escalating further. Monetary policy action by the European Central Bank has also proved decisive.

After years of low or no growth, **determined efforts at all levels have started to pay off**. Europe is now experiencing a robust recovery. All Member States are now growing and overall EU growth has stood at around 2% on average for several years in a row.¹ The economic sentiment is at its highest in the EU and the euro area since 2000. Unemployment is at its lowest since late 2008. Popular support for the euro is at its highest in the euro area since the introduction of the euro notes and coins in 2002.²

¹ European Economic Forecast Autumn 2017, Institutional Paper 63.

² Flash Eurobarometer 458, 4 December 2017.

However, as the current Commission said when taking office, the crisis is not over as long as unemployment remains so high, with 14.3 million people still without a job in the euro area in October 2017.

Important lessons needed to be drawn from the crisis years. The relevant issues were already clearly identified in the **Five Presidents' Report of June 2015**.³ Since then, a lot has been done to "deepen" the Economic and Monetary Union by "doing". The European Semester of economic policy coordination has been strengthened with clearer guidance for the euro area as a whole and a stronger focus on social aspects. Economic governance has been improved, with the creation of a European Fiscal Board and National Productivity Boards. Technical assistance to Member States was boosted with the creation of the Structural Reform Support Service. Important steps towards completing the Banking Union⁴ and Capital Markets Union⁵ have been taken, notably by advancing in parallel on risk-reduction and risk-sharing measures in the banking sector. To increase ownership at all levels, the dialogue with national and European political actors and social partners has also intensified.

As a result, the euro area architecture is more robust than ever before but this does not mean that it is complete. **The Reflection Paper on the deepening of the Economic and Monetary Union**,⁶ as well as the Reflection Paper on the future of EU finances⁷ presented by the Commission as part of the follow-up to the **White Paper on the Future of Europe**,⁸ recall the state of play and outline a possible way forward to 2025.

Europe is now visibly regaining its strength. Both economically and politically, there is a **window of opportunity** and positive developments are further encouragements to act. There should be no complacency: one should always fix the roof when the sun is shining.

In his State of the Union address on 13 September 2017,⁹ President Juncker set out his views for a **More United, Stronger and More Democratic Union** and made it clear that the completion of Europe's Economic and Monetary Union is an essential part of the roadmap leading to the meeting of Leaders in Sibiu, called by President Tusk for 9 May 2019, where important decisions on the future of Europe should take place.

³ "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.

⁴ See in particular COM(2017) 592 final, 11 October 2017.

⁵ COM(2017) 292 final, 8 June 2017.

⁶ COM(2017) 291, 31 May 2017.

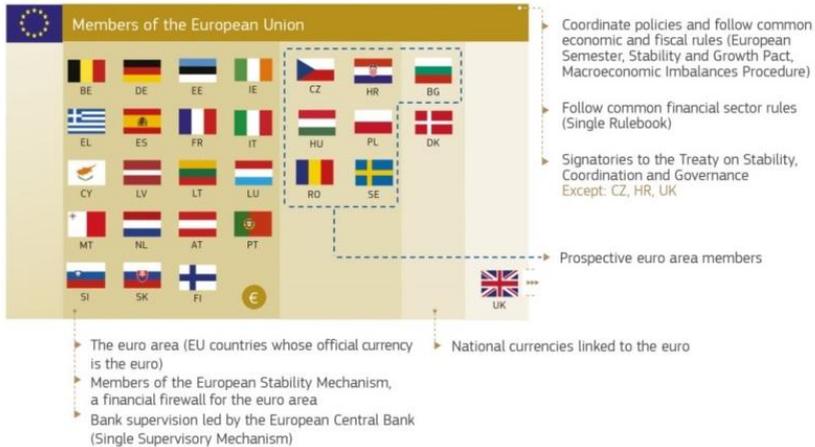
⁷ COM(2017) 358, 28 June 2017.

⁸ COM(2017) 2025, 1 March 2017.

⁹ President Jean-Claude Juncker's State of the Union Address 2017, 13 September 2017.

This is also reflected in the **Leaders' Agenda**,¹⁰ with EU Leaders planning a Euro Summit on 15 December 2017 to discuss a timeline for decisions on Economic and Monetary Union and the Banking Union, and a dedicated meeting planned on 28-29 June 2018 with a view to reaching concrete decisions.

Europe's Economic and Monetary Union today



Source: European Commission

The call for unity, efficiency and democratic accountability of the State of the Union address is particularly relevant for the completion of the Economic and Monetary Union:

- Unity:** The euro is the single currency of the EU and what is conceived for the euro area should also be conceived for and with those Member States that are expected to join the euro in the future. With the exception of the United Kingdom and Denmark, **all non-euro Member States are legally committed to joining the euro eventually.**¹¹ Moreover, with the United Kingdom's departure, euro area economies will represent about 85% of the EU's total Gross Domestic Product. The EU's political and economic integration, of which the single market is the core, means that the futures of both euro and non-euro Member States are already intertwined, and a strong and stable euro area is key to its members as well as to the EU as a whole. This is why the proposals in this package address the needs and

¹⁰ Leaders' Agenda: Building our future together, endorsed by the European Council on 20 October 2017.

¹¹ Among the non-euro Member States, Denmark and Bulgaria have pegged their currency to the euro since the introduction of the latter in 1999. Unlike Denmark, Bulgaria does not participate in the Exchange Rate Mechanism II, but the lev is pegged to the euro through a currency board arrangement.

interests of both euro and non-euro Member States, as inter-dependent parts of the Economic and Monetary Union.

- **Efficiency:** A stronger Economic and Monetary Union requires **stronger governance** and a **more efficient use of available resources**. The current system still reflects a patchwork of decisions taken to face an unprecedented crisis. This has sometimes led to a multiplication of instruments and an increased sophistication of rules, which is a source of complexity and creates risks of duplications. Greater synergies, streamlined procedures and the integration of intergovernmental arrangements within the **EU legal framework** would strengthen governance and decision-making. It is also for efficiency reasons that all the changes proposed by the Commission as part of today's package can be implemented within the framework of the current EU Treaties.
- **Democratic accountability:** Completing the Economic and Monetary Union also means greater **political responsibility** and **transparency** about who decides what at the different levels. This requires bringing the European dimension of decision-making closer to citizens and more to the forefront of national debates, as well as making sure that both national Parliaments and the European Parliament have sufficient powers of oversight on the management of the EU's economic governance. This should also lead to greater ownership of collective decisions and openness on the way they are taken and communicated.

In recent years, many views have been expressed on the completion of the Economic and Monetary Union. Opinions may differ but there is a **broad consensus** on the need to make further progress. There have also been very significant contributions from the European Parliament¹² and important discussions in the Eurogroup.¹³

This Communication gives a summary of the rationale and content of the initiatives presented today by the Commission. It then recalls how this package is embedded in a broader **roadmap to deepen Europe's Economic and Monetary Union by 2025** and provides a timeline for action in the next 18 months.

¹² See, in particular, the European Parliament resolutions of 16 February 2017 on i) budgetary capacity for the euro area (2015/2344(INI)), ii) possible evolutions of and adjustments to the current institutional set-up of the European Union (2014/2248(INI)) and iii) improving the functioning of the European Union building on the potential of the Lisbon Treaty (2014/2249(INI)).

¹³ See, in particular, Eurogroup of 6 November 2017 on “Fiscal capacity and fiscal rules for the Economic and Monetary Union”, Eurogroup of 9 October 2017 on “Deepening Economic and Monetary Union – The role of the European Stability Mechanism” and Eurogroup of 10 July 2017 on “Follow-up on deepening of the Economic and Monetary Union”.

2. TODAY'S INITIATIVES

As announced in the 2017 State of the Union address and the accompanying Letter of Intent, today's initiatives set out further steps towards completing the Economic and Monetary Union.

An overview of today's package

Today, the Commission is presenting the following proposals and initiatives:

- *A proposal for the establishment of a European Monetary Fund anchored in the Union legal framework;*
- *A proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework, taking into account the appropriate flexibility built into the Stability and Growth Pact and identified by the Commission since January 2015;*
- *A Communication on new budgetary instruments for a stable euro area within the Union framework;*
- *For the period 2018-2020, (1) targeted changes in the Common Provisions Regulation to mobilise EU funds in support of national reforms and (2) a proposal to strengthen the Structural Reform Support Programme;*
- *A Communication on a European Minister of Economy and Finance.*

A proposal for the establishment of a European Monetary Fund

This proposal builds on the well-established structure of the European Stability Mechanism by creating a **European Monetary Fund** anchored within the EU's legal framework. This was already announced in the Five Presidents' Report and has also been called for by the European Parliament, which stressed the need for the European Monetary Fund to be equipped with adequate lending and borrowing capacities and a clearly defined mandate.¹⁴

The European Stability Mechanism was set up in October 2012 at the height of the crisis. The pressure of events at the time led to an intergovernmental solution being found. However, it was already clear then that this could also be achieved within the framework of the EU Treaties, as indicated, for instance, in the Commission's Blueprint for a Deep and Genuine Economic and Monetary Union.¹⁵

Over the years, the European Stability Mechanism has proven decisive in helping to preserve the financial stability of the euro area. It has done so by providing additional financial support to euro area Member States in distress. Its transformation into a

¹⁴ European Parliament's resolution of 16 February 2017 on a budgetary capacity for the euro area (2015/2344(INI)).

¹⁵ COM(2012)777 "Blueprint for a Deep and Genuine Economic and Monetary Union", 28 November 2012.

European Monetary Fund will further strengthen its **institutional anchoring**. It will help to create new synergies within the EU framework, notably in terms of transparency, legal review and efficiency of the EU's financial resources and thus offering better support to Member States. It will also help improve further the cooperation with the Commission and accountability to the European Parliament. This will be done without affecting the way in which national governments are held to account by their own national Parliaments and preserving the commitments of the existing European Stability Mechanism.

The initiative takes the form of a proposal for a Council Regulation, which is subject to the consent of the European Parliament, under Article 352 of the Treaty on the Functioning of the EU. Article 352 allows for the integration of the European Stability Mechanism into the Union framework, as this action is necessary for the **financial stability of the euro area**¹⁶ and the Treaties have not provided any other legal basis for the EU to reach this precise objective.¹⁷ Paragraph 2 of that Article explicitly foresees a role for national Parliaments. Historically, several significant decisions paving the way towards the establishment of the Economic and Monetary Union have been based on the equivalent of Article 352. For instance, decisions on the European Monetary Cooperation Fund, the European Currency Unit and the first balance of payment mechanisms were taken under Article 235 of the Treaty on the European Economic Community, the predecessor to Article 352.

The proposal is complemented by a draft of what could become an **intergovernmental agreement** for euro area Member States to agree among themselves on the transfer of funds from the European Stability Mechanism to the European Monetary Fund. This also foresees that the Fund would succeed to and replace the ESM, including in its legal position, with all its rights and obligations.

Under today's proposal, the European Monetary Fund will be established as a **unique legal entity under Union law**. It will succeed the European Stability Mechanism, with its current financial and institutional structures essentially preserved. This means that the European Monetary Fund will continue to provide financial stability support to Member States in need, to raise funds by issuing capital market instruments and to engage in money market transactions. The membership will not change and the participation of additional Member States will remain possible, once they join the euro.

Given that the European Monetary Fund would become a Union body, some targeted adjustments are necessary to the current structure of the European Stability Mechanism.

¹⁶ The necessity of having a body such as the European Stability Mechanism to safeguard the stability of the euro area is based on factual elements and confirmed by Article 136(3) Treaty on the Functioning of the EU, as well as the second recital of the European Stability Mechanism Treaty, which refer to the current ESM as "a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole".

¹⁷ The European Court of Justice has already considered the possibility that Article 352 could be used to establish a Union body in charge of providing financial support to ensure stability of the euro area. See "Pringle case"- judgment of 27 November 2012, Case C-370/12, EU:C:2012:756, paragraph 67. As indicated in footnote 15, the 2012 Commission Blueprint also mentioned the possible use of Article 352.

These are explained in the explanatory memorandum to the Regulation. They include an **endorsement by the Council** of discretionary decisions taken by the European Monetary Fund.¹⁸

In addition, today's proposal adds a limited number of new features.

- 1) First, the European Monetary Fund will be able to provide the **common backstop to the Single Resolution Fund**. This is an essential component of the second pillar of the Banking Union- the Single Resolution Mechanism.¹⁹

When the Single Resolution Mechanism was adopted in 2013, Member States also agreed to develop a **backstop to the Single Resolution Fund**. This was meant as a last resort to be activated if the Single Resolution Fund's immediately available resources proved to be insufficient for capital or liquidity purposes. Member States also agreed that it should be fiscally neutral over the medium term so that any potential deployment of the backstop would be recovered from the banking sector in the euro area.

New EU rules on banking supervision and resolution developed in the aftermath of the crisis have significantly reduced the likelihood and potential impact of bank failures. However, a common fiscal backstop continues to be needed to enhance the financial capacity of the Single Resolution Fund. Such a backstop would instil confidence in the banking system by underpinning the credibility of actions taken by the Single Resolution Board. In turn, this would actually reduce the likelihood of a situation in which a backstop would need to be called on.

There is now wide consensus that the European Stability Mechanism – the future European Monetary Fund – is best placed to provide such a backstop in the form of a credit line or guarantees to the Single Resolution Fund. This is reflected in today's proposal which also sets out appropriate decision-making processes to ensure that the backstop can be deployed quickly, if needed. Special arrangements are also proposed to cater for the legitimate interests of non-euro Member States having joined the Banking Union.

- 2) Second, in terms of **governance**, the proposal includes the possibility for faster decision-making in specific urgent situations. It is proposed to keep unanimity voting for all major decisions with financial impact (e.g. capital calls). However,

¹⁸ This will ensure compliance with the “Meroni doctrine”. The Meroni doctrine, which arose from Cases H-9/56 and H-10/56 (Meroni v High Authority [1957/1958] ECR 133), relates to the extent to which EU Institutions may delegate their tasks to regulatory agencies. In the context of today's proposal, it should be borne in mind that the endorsement by the Council of discretionary decisions taken by the Boards of the European Monetary Fund will be simplified by the fact that the composition of its Board of Governors is the same as that of the Eurogroup.

¹⁹ Regulation (EU) No 806/2014. The Single Resolution Board (SRB) is the resolution authority for large and systemic banks in the euro area, operational since January 2016. The Single Resolution Fund (SRF) is financed via contributions from the euro area banking sector. It may be used to finance resolution costs, provided that all conditions of the regulatory framework are met, including the bail-in of 8% of total liabilities of the bank concerned.

reinforced qualified majority, in which 85% of the votes are required, is proposed for specific decisions on stability support, disbursements and the deployment of the backstop.

- 3) Third, as regards the **management of financial assistance programmes**, the proposal foresees a more direct involvement of the EMF, alongside the European Commission.
- 4) Fourth, the proposal refers to the possibility for the European Monetary Fund to develop **new financial instruments**. Over time, such instruments could supplement or support other EU financial instruments and programmes. Such synergies could prove particularly useful if the European Monetary Fund were to play a role in support to a possible stabilisation function in the future.

With these changes, the European Monetary Fund will establish itself as a robust crisis management body within the Union framework, working in **full synergy with other EU institutions**. The Council and the Commission will retain their competences and responsibilities in terms of economic and fiscal surveillance and policy coordination, as set out in the EU Treaties.

Practical cooperation can also be stepped up to serve Member States better, engage with market participants and avoid the duplication of activities. Further cooperation could be sought in the light of further progress towards the strengthening of Economic and Monetary Union.

A proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework, taking into account the appropriate flexibility built into the Stability and Growth Pact and identified by the Commission since January 2015

The **Treaty on Stability, Coordination and Governance in the Economic and Monetary Union** is an intergovernmental Treaty signed by 25 EU Member States.²⁰ It complements the EU fiscal framework, including the Stability and Growth Pact.

Today's proposal implements its Article 16 in which all the contracting parties legally committed to taking steps to incorporate the substance of that Treaty into Union law within five years after its entry into force, which corresponds to 1 January 2018.²¹ It should be recalled that at the time of the negotiation of the Treaty, notably the

²⁰ Austria, Belgium, Bulgaria, Cyprus, Germany, Denmark, Estonia, Spain, France, Greece, Hungary, Italy, Ireland, Lithuania, Luxembourg, Latvia, Malta, Netherlands, Portugal, Poland, Romania, Sweden, Finland, Slovenia and Slovakia.

²¹ Article 16 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union states that "within five years, at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the Treaty on the European Union and the Treaty on the Functioning of the European Union, with the aim of incorporating the substance of this Treaty into the legal framework of the European Union."

European Parliament and the Commission insisted on its incorporation under EU law within a defined timeframe, which Member States accepted in Article 16.

As with the European Stability Mechanism, the decision to establish the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union as an intergovernmental Treaty in 2012 must be seen in the context of the circumstances at the time. However, both the commitment taken under Article 16 and the fact that subsequent legislation (known as the "two-pack") has already incorporated many of its elements under EU law, show that the intention of finding Union solutions has been present from the beginning. Bringing the substance of the Treaty on Stability, Coordination and Governance under EU law has also been repeatedly called for by the European Parliament,²² arguing that, to be effectively legitimate and democratic, the governance of a genuine Economic and Monetary Union must be placed within the institutional framework of the Union.

Today's initiative takes the form of a proposal for a Council Directive, which requires consultation of the European Parliament, under Article 126(14)(2) of the Treaty on the Functioning of the EU. This is the only available legal basis in the Treaty. The Commission will take due account of the views of the European Parliament in the process. The proposal applies to all euro area Member States and includes "opt-in" provisions for non-euro Member States.

The proposed Directive integrates the essence of Article 3 of the Treaty on Stability, Coordination and Governance, which forms part of the so-called **Fiscal Compact**. This Article requests that a balanced budget rule in structural terms should be applied, along with a correction mechanism in case of significant deviation. As reported by the Commission earlier this year,²³ the provisions under this Article have already been enacted into national laws.

Integrating the Fiscal Compact into Union law will **simplify the legal framework** and allow for **continuous and improved monitoring** as part of the overall EU economic governance framework. In particular, this will complement and strengthen the existing fiscal frameworks, which aim to achieve convergence to prudent levels of public debt. At the same time, the proposal takes into account the appropriate flexibility built into the Stability and Growth Pact and identified by the Commission since January 2015.²⁴ The provisions are therefore fully in line with existing rules defined in primary and secondary legislation.

The proposal also stresses the value and maintains the practice of inter-parliamentary meetings held annually by the European Parliament, as well as the voting arrangements

²² European Parliament resolution of 12 December 2013 on constitutional problems of a multitier governance in the European Union (P7_TA(2013)0598) and resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges (P8_TA(2015)0238).

²³ COM(2017) 1201 final, 22 February 2017.

²⁴ COM(2015) 12, 13 January 2015.

among contracting parties listed in the Treaty on Stability, Coordination and Governance.

A Communication on new budgetary instruments for a stable euro area within the Union framework

In his State of the Union address, President Juncker stressed that there was no need for parallel structures: “*we do not need a budget for the euro area but a strong euro area budget line within the EU budget*”. The **Reflection Papers on the deepening of the Economic and Monetary Union** and on the **future of EU finances** described the common challenges for the modernisation of EU public finances in general and for the particular needs of the euro area. Today's Communication sets out a vision of how certain budgetary functions that are essential for the euro area and the EU as a whole can be developed within the framework of the EU public finances of today and tomorrow.

The Communication recalls what can be achieved within the current financial framework of the EU and presents several ideas and options, some of which pave the way for the **upcoming proposals for the post-2020 Multiannual Financial Framework**.

The Communication discusses four specific functions that are essential for the deepening of the Economic and Monetary Union. It proposes concrete next steps for each of them:

- **Support to structural reforms** through: 1) a reform delivery tool to support reform commitment packages agreed with Member States and 2) technical support at the request of Member States;
- **A dedicated convergence facility for Member States on their way to joining the euro;**
- **A backstop for the Banking Union**, through the European Stability Mechanism/European Monetary Fund, as explained above;
- **A stabilisation function**, bringing together different EU and euro area level funds and financial instruments, to be used to maintain investment levels in the event of large asymmetric shocks.

For the period 2018-2020, the Commission intends to develop some of these ideas and to test them in practice to support structural reforms and capacity building. To that end, the following initiatives are presented alongside this package:

- **A proposal to amend the Common Provisions Regulation**, as explained below, in order to extend the possibilities to use the performance reserve built into the existing European Structural and Investment Funds.
- **A proposal to strengthen the Structural Reform Support Programme**, as explained below, to boost technical support available for all Member States and to

create a dedicated work stream to support non-euro Member States in their convergence process.

The other proposals mentioned here will follow in the context of the post-2020 Multiannual Financial Framework, for which detailed proposals will be presented in **May 2018**. The Commission will take full account of the feedback received by then.

Targeted changes to the Common Provisions Regulation

With a view to preparing for the new reform delivery tool mentioned above, the Commission proposes to test a new tool of budgetary support in a pilot phase for the period 2018-2020. This proposal takes the form of targeted amendments to the Common Provisions Regulation.²⁵ Its aim is to offer additional flexibility in the use by Member States of **the performance reserve of the European Structural and Investment Funds**. It will be up to each Member State to decide whether it intends to allocate parts of its performance reserve to this new scheme.

The aim of this tool will be to support the implementation of national reforms, which will be identified through the European Semester of economic policy coordination and built into the National Reform Programmes presented by the Member States. Once the reform commitments of a Member State are agreed, with clearly defined targets and milestones, the Commission will monitor and evaluate their implementation before the disbursement of support.

The proposal does not modify the overall level of expenditure for the European Structural and Investment Funds in the current Multiannual Financial Framework. The lessons learned from the initiative will inform the proposals for the post-2020 period.

A proposal to strengthen the Structural Reform Support Programme

Following the Five President's Report, the Commission established the **Structural Reform Support Service** in late 2015. The aim of this Service is to provide technical support to Member States in order to assist in the design and implementation of specific reforms or to reinforce their overall reform capacity. The programme has proven particularly successful in helping Member States to design reforms for the modernisation of the public administration and the business environment. It has now become clear that the demand for this type of technical assistance by far exceeds the

²⁵ Regulation (EU) No 1303/2013 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 (OJ L 347, 20.12.2013, p. 320-469).

funding that had initially been made available through the **Structural Reform Support Programme**.²⁶

At the same time, as stated by President Juncker in his State of the Union address, there is a clear need to think ahead and support non-euro Member States in preparing for their euro accession when they so desire. One of the lessons learned from the crisis is that achieving convergence and building robust economic structures is crucial for the prosperity of the Union and, in particular, for the smooth functioning of the single currency.

Dedicated technical support to non-euro Member States can prove useful to contribute to the process of real convergence. This is notably true in areas such as public financial management, public administration, the financial sector, and labour and product markets.

For these two reasons, the Commission is today presenting **an amendment to the Structural Reform Support Programme Regulation**.²⁷ Its objective is to double the funding available for technical assistance activities by 2020, thus bringing it to EUR 300 million for the period 2017-2020. Lessons learned will inform the proposals for the post-2020 period.

A Communication on a European Minister of Economy and Finance

In his State of the Union address, President Juncker backed the idea of a **European Minister of Economy and Finance**. In keeping with the logic that form follows function, the Minister will be instrumental in strengthening the coherence, efficiency, transparency and democratic accountability of EU economic governance. It is also important to note that the merging of the function of a responsible Commissioner, possibly a Vice-President of the Commission, with that of the President of the Eurogroup is already possible under the current EU Treaties.²⁸

The current architecture of the Economic and Monetary Union is intrinsically complex. Competences, functions and instruments are carried out by different bodies, within various and sometimes overlapping legal frameworks. This is sub-optimal for EU citizens and decision-makers alike, as it hampers the ability to articulate and stand up for the common economic interest of the EU and of the euro area in particular. This need has been increasingly felt over the years as the euro has become a leading international currency and several dimensions of the Economic and Monetary Union

²⁶ The Structural Support Programme (SRSP) was established in May 2017 to support financially the activities of the Structural Reform Support Service.

²⁷ Regulation (EU) No 2017/825 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (OJ L 19.05.2017, p. 129).

²⁸ Article 2 of Protocol No 14 on the Euro Group, annexed to the Treaty on the European Union and to the Treaty on the Functioning of the European Union, establishes the rules for electing the President of the Eurogroup. There is no incompatibility between this role and that of a member of the Commission.

are being strengthened. This is also one of the reasons behind the fact that this Commission has strengthened its internal coordination capacities by assigning new horizontal roles to its Vice-Presidents to coordinate several economic, financial and social policy portfolios.

Today's Communication looks to the future and sets out how certain existing functions could be combined under a European Minister in order to pursue the general interest of the EU and euro area economy, to strengthen policy coordination and to deliver an improved policy mix at all levels. The European Minister would also oversee the use of EU and euro area budgetary instruments and seek to maximise their impact in support of shared priorities.

The Communication also spells out the potential institutional setting in which the Minister would operate. The Minister would strengthen the European dimension of economic policy-making and ensure strong parliamentary scrutiny at EU level, without calling into question national competences. By combining existing functions and available expertise at EU level, the Minister would contribute to a more efficient governance framework, which should complement and facilitate the exercise of national competences, also in their interaction at EU level.

The establishment of such a position could be pursued sequentially. The role of the Minister as Vice-President of the Commission could be established as part of **the appointment of the next Commission as from November 2019**. For him or her to chair the Eurogroup, the latter could informally agree to elect the Minister as its President for **two consecutive mandates**, thus agreeing on the alignment of its mandate with the mandate of the Commission.

3. A ROADMAP FOR DEEPENING THE ECONOMIC AND MONETARY UNION

Moving from general principles to practical implementation requires a determined sense of direction and appropriate sequencing. Following the Five Presidents' Report, the Reflection Paper on the deepening of the Economic and Monetary Union set out a roadmap for the completion of the Economic and Monetary Union by 2025, which remains relevant.

Today's package is part of this broader agenda. It adds to steps already taken and still to come. Overall, progress is needed in four complementary areas: **1) Financial Union; 2) Fiscal Union; 3) Economic Union and 4) democratic accountability and strengthened governance.**

To take the first steps, it is important to know the direction and to see the path ahead. As a way to structure the work ahead, this Communication identifies the initiatives to be discussed and agreed by the EU co-legislator over the next eighteen months. This roadmap is also presented in an appendix and the main elements are recalled below. It also sets out a possible path to 2025.

Financial Union

The establishment of the Banking Union and the Capital Markets Union have considerably reduced remaining risks in the EU financial sector, changed its fundamentals and contributed to its solidity and resilience. However, remaining parts of this work need to be completed swiftly.

The **Commission Communication on completing the Banking Union**, published in October 2017,²⁹ includes a pragmatic path for a swift agreement on outstanding issues. This specific roadmap is also reproduced in an appendix. This includes first and foremost the completion of the **risk-reduction** agenda to strengthen further the resilience of EU banks. A number of initiatives currently under negotiation in the European Parliament and the Council, notably the Commission's banking package from November 2016³⁰, as well as the proposal on business insolvency and restructuring, need to be **agreed in 2018**. Determined progress is also necessary in the context of ongoing national and European work with regard to **non-performing loans**, which remain a challenge in parts of the banking sector.³¹ In parallel, the proposal for a **European Deposit Insurance Scheme**³² should be agreed upon by the co-legislators by the **end of 2018**. The proposal for a common **backstop to the Single Resolution Fund** should be politically agreed by **mid-2018**, with a view to its quick operationalisation by **2019**.

At the same time, all actors – EU Institutions, Member States, supervisory authorities and market operators across Europe – should step up their work to make the **Capital Markets Union** a reality so that deep and well-integrated capital markets can play their role as shock-absorbers and efficient channels for private risk-sharing, while at the same time improving access to finance, in particular for start-ups and companies.

The Commission is supportive of the current work in the European Systemic Risk Board on **European Sovereign Bond-backed Securities** and will present an enabling framework for such securities **in spring 2018**.

Fiscal Union

As part of the European Semester of economic policy coordination, the Commission will continue to work towards **responsible fiscal policy** at national level, by supporting the establishment of sound fiscal frameworks and paying appropriate attention to debt levels.

²⁹ COM(2017) 592 final, 11 October 2017.

³⁰ Commission proposals of 23 November 2016 amending the following pieces of legislation: Regulation No 575/2013, Directive 2013/36/EU, Directive 2014/59/EU and Council implementing regulation 2015/81 of 19 December 2014.

³¹ See for example ECOFIN conclusions on non-performing loans in the Banking Sector (doc. 9854/17).

³² COM(2015) 586 final, 24 November 2015.

Policy guidance will continue to take account of what makes economic and budgetary sense both for the countries concerned and for the euro area as a whole, at the particular juncture of the economic cycle. The Commission will continue to apply the rules of the Stability and Growth Pact by making use of its inbuilt flexibility in support of reforms and investment. It will also continue to put the focus on the **priorities of the euro area** as a whole, notably in terms of the aggregate fiscal stance, in line with the annual Recommendation for the economic policy of the euro area.³³

Beyond these aspects, as explained above, **the post-2020 Multiannual Financial Framework** will be a key opportunity to modernise the Union public finances and find new synergies in order to support national reform and investment efforts, as well as to cushion large asymmetric shocks. The Commission intends to make a proposal for the creation of a **stabilisation function in May 2018**, to be fully developed over time, as part of the proposals for the post-2020 Multiannual Financial Framework.

Finally, the need to capture the diversity of economic circumstances, which was particularly pronounced during the crisis years, has brought more sophisticated but also more complex fiscal rules at EU level over time. At times, this can play against national ownership of reforms and effective implementation. 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.

Economic Union

The notions of convergence and integration are at the heart of the Economic Union. To achieve sustainable prosperity, Member States need to continue to focus on the necessary reforms to modernise their economies, make them more resilient to possible shocks and improve their growth prospects. Reform priorities are discussed and monitored on an annual basis in the context of the **European Semester of economic policy coordination**.

Going forward, the Union framework should continue to **support a process of reforms for real convergence** across the EU, both within the euro area and for countries on their way to joining the euro. As explained above, the Commission will start with pilot actions for the period 2018-2020 and will present dedicated proposals to support agreed reforms in **May 2018 in view of the post-2020 Multiannual Financial Framework**. This should be agreed before the next European Parliament elections.

In addition, the proposal to **strengthen the budget of the Structural Reform Support Programme for the next two years** will need to be adopted by the European Parliament and Council in 2018. Among other tasks, a dedicated work stream will be developed to provide tailor-made assistance to countries that plan to adopt the euro

³³ See for instance COM(2016) 726 final, 16 November 2016 and COM(2017) 770 final, 22 November 2017.

over a defined time horizon. Looking beyond 2020, the Commission intends to propose a **continuation of the Structural Reform Support Programme**. This will also include a **dedicated convergence facility** for non-euro Member States.

Finally, further strengthening of **coordination of national economic policies** is important for convergence. The annual process of policy coordination will continue to be linked with a **more multi-annual approach** to reforms initiated by national governments. In so doing, it will also be important to keep a strong social dimension to all activities. The principles and rights of the **European Pillar of Social Rights**, which was proclaimed in Gothenburg on 17 November 2017, will provide a compass for renewed convergence towards better working and living conditions.³⁴ Moreover, ongoing work in the Council and in the Eurogroup on the **benchmarking of policies** and the identification of **convergence standards** should be reinforced during the next 18 months.

Democratic accountability and strengthened governance

As explained above, the **integration of both the European Stability Mechanism and the Treaty on Stability, Coordination and Governance under the Union framework by mid-2019** will be useful steps to strengthen institutional efficiency, transparency and accountability.

The European Parliament and national Parliaments should be equipped with sufficient powers of oversight. The Commission has developed an effective regular **dialogue with the European Parliament** on EU and euro area economic policy matters in recent years. In the light of today's proposals, these practices could be formalised by the two institutions by the **end of 2018**.

Moreover, the establishment of a **European Minister of Economy and Finance** could be considered as part of the appointment of the next Commission as from **November 2019**, with the Eurogroup electing the Minister as its President for two consecutive mandates. In parallel, stronger internal coordination on Economic and Monetary Union matters should be mirrored by a **more unified external representation of the euro area**, as proposed by the Commission in 2015.³⁵

4. CONCLUSIONS

The package presented today constitutes further important steps for the deepening of Europe's Economic and Monetary Union, which is also an essential element on the way to a **More United, Stronger and More Democratic Union**. Building on the Leaders'

³⁴ The adoption of the Pillar was complemented by the establishment of a Social Scoreboard, which will be integrated in the 2018 European Semester and serve as a reference framework for the monitoring of employment and social performance.

³⁵ COM(2015) 603 final, 21 October 2015.

Agenda, concrete decisions are expected in the coming months. In the view of the Commission, a roadmap should be agreed upon, which should include the following steps over the next 18 months:

By mid-2018:

- adoption of the necessary **legal acts to complete the Banking Union**, including the 2016 November **risk-reduction package** to strengthen the resilience of EU banks. In parallel, work on proposals relating to the Capital Markets Union needs to continue.
- agreement on a **common backstop for the Single Resolution Fund** with a view to its quick operationalisation by 2019.
- adoption of the amending proposal to double the activities of the **Structural Reform Support Programme** by 2020.
- adoption of the targeted changes to the **Common Provisions Regulation** in support of the implementation of national reforms.

By the end of 2018:

- adoption of the proposal on the **European Deposit Insurance Scheme**.
- formalisation of **dialogue practices between the European Parliament and the Commission**.

By mid-2019:

- adoption of the proposals leading to (1) **the establishment of a European Monetary Fund**, (2) **the incorporation of the Treaty on Stability, Coordination and Governance into Union law** and (3) **the establishment of unified representation of the euro area in the International Monetary Fund**.
- a common understanding on the role of a **European Minister of Economy and Finance** in the context of the next Commission, with the Eurogroup agreeing to elect the Minister as its President for two consecutive mandates.
- conclusion of the discussions on pending proposals to **improve the functioning of the euro area** and adopt in the context of the **next Multiannual Financial Framework**: (1) **proposals for structural reform support**, (2) a **dedicated convergence facility for non-euro Member States**, (3) a **stabilisation function**.
- finalisation of all pending legislative initiatives for the **Capital Markets Union**, including the review of the European Supervisory Authorities, all changes to the European Markets Infrastructure Regulation and the Pan-European Pension Product.

While progressing on all these fronts, it will be important to have a clear sense of direction for the period 2019-2024, with a view to **deepening Europe's Economic and Monetary Union by 2025**. The roadmap in appendix 1 recalls the main steps that would still be necessary beyond 2019, building on the Reflection Paper on the deepening of the Economic and Monetary Union. These steps should be part of the common understanding to be reached by mid-2018.

Appendix 1: A roadmap for deepening Europe's Economic and Monetary Union



| In 2018 | |
|---|---|
| FINANCIAL UNION | ECONOMIC AND FISCAL UNION |
| BANKING AND CAPITAL MARKETS UNION <ul style="list-style-type: none"> ✓ Adoption of all the remaining proposals on Banking Union, including on risk reduction, the European Deposit Insurance Scheme and a common backstop for the Single Resolution Fund ✓ Commission proposal for an enabling framework for European Sovereign Bond-backed Securities for the euro area, following the work of the European Systemic Risk Board | EU MULTIANNUAL FINANCIAL FRAMEWORK <ul style="list-style-type: none"> ✓ Adoption of the proposal to reinforce the Structural Reform Support Programme ✓ Adoption of the targeted changes to the Common Provisions Regulation ✓ Commission proposals for the post-2020 Multiannual Financial Framework |
| DEMOCRATIC ACCOUNTABILITY AND EFFECTIVE GOVERNANCE | |
| EUROPEAN MONETARY FUND <ul style="list-style-type: none"> ✓ Discussion on the legislative proposal | INCORPORATION OF FISCAL COMPACT INTO EU LAW <ul style="list-style-type: none"> ✓ Discussion on the legislative proposal |
| EUROPEAN MINISTER OF ECONOMY AND FINANCE <ul style="list-style-type: none"> ✓ Discussion at political level | DIALOGUE BETWEEN EU INSTITUTIONS <ul style="list-style-type: none"> ✓ Formalisation of practices between the European Parliament and the Commission |
| EXTERNAL REPRESENTATION OF THE EURO AREA <ul style="list-style-type: none"> ✓ Discussion on the legislative proposal | |
| By mid-2019 | |
| FINANCIAL UNION | ECONOMIC AND FISCAL UNION |
| BANKING AND CAPITAL MARKETS UNION <ul style="list-style-type: none"> ✓ Fully functional backstop to the Single Resolution Fund ✓ Implementation of the European Deposit Insurance Scheme ✓ Finalising all pending legislative initiatives for Capital Markets Union | EU MULTIANNUAL FINANCIAL FRAMEWORK <ul style="list-style-type: none"> ✓ Adoption of the post-2020 proposals for structural reform support ✓ Adoption of the post-2020 proposal on a dedicated convergence facility for non-euro Member States ✓ Adoption of the post-2020 proposal for a stabilisation function |
| DEMOCRATIC ACCOUNTABILITY AND EFFECTIVE GOVERNANCE | |
| EUROPEAN MONETARY FUND <ul style="list-style-type: none"> ✓ Adoption of the legislative proposal | EXTERNAL REPRESENTATION OF THE EURO AREA <ul style="list-style-type: none"> ✓ Adoption of the legislative proposal |
| EUROPEAN MINISTER OF ECONOMY AND FINANCE <ul style="list-style-type: none"> ✓ Common understanding | INCORPORATION OF FISCAL COMPACT INTO EU LAW <ul style="list-style-type: none"> ✓ Adoption of the legislative proposal |
| Possible further steps: end 2019-2025* | |
| FINANCIAL UNION | ECONOMIC AND FISCAL UNION |
| <ul style="list-style-type: none"> ✓ Continuous implementation of Capital Markets Union initiatives ✓ Move towards the issuance of a European safe asset ✓ Changes to the regulatory treatment of sovereign exposures | <ul style="list-style-type: none"> ✓ Implementation of the new Multiannual Financial Framework ✓ Fully functional stabilisation function ✓ Simplification of the rules of the Stability and Growth Pact |
| DEMOCRATIC ACCOUNTABILITY AND EFFECTIVE GOVERNANCE | |
| <ul style="list-style-type: none"> ✓ Fully-fledged function of European Minister of Economy and Finance as chair of the Eurogroup and Vice-President of the Commission | <ul style="list-style-type: none"> ✓ Fully operational European Monetary Fund ✓ Setting-up of a euro area Treasury |

* For more details, see the Reflection Paper on the deepening of the Economic and Monetary Union of 31 May 2017

Source: European Commission

Appendix 2: Roadmap on completing the Banking Union by 2018 – abstract from the Commission Communication of 11 October 2017



Source: European Commission

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

New budgetary instruments for a stable euro area within the Union framework

COM(2017) 822 final, 06.12.2017

1. INTRODUCTION

In his 2017 State of the Union address and accompanying Letter of Intent, President Juncker announced the Commission's intention to make concrete proposals for the creation of a dedicated euro area budget line within the EU budget, providing for the following functions: (1) structural reform assistance, building on the Commission's Structural Reform Support Programme; (2) a stabilisation function; (3) a backstop for the Banking Union; and (4) a convergence instrument to give pre-accession assistance to Member States on their way to joining the euro.

These ideas are further detailed in this Communication, which is part of a package of initiatives to deepen Europe's Economic and Monetary Union.¹ The package builds, in particular, on the Five Presidents' Report on completing Europe's Economic and Monetary Union of 22 June 2015² and on the Commission's Reflection Paper on the deepening of the Economic and Monetary Union of 31 May 2017.³

Deepening the Economic and Monetary Union and modernising EU public finances are key strands in the debate on the future of Europe initiated by the Commission's White Paper of 1 March 2017.⁴ This was further highlighted in the Reflection Paper on the future of EU finances of 28 June 2017.⁵ At the current juncture, there is a window of opportunity to launch concrete forward-looking

¹ COM (2017) 821, 6 December 2017.

² 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.

³ COM (2017) 291, 31 May 2017.

⁴ COM (2017) 2025, 1 March 2017.

⁵ COM (2017) 358, 28 June 2017.

proposals on both the future of the Economic and Monetary Union and on how future EU public finances can help to respond to identified challenges.

European value added is at the heart of the debate on European public finances. EU resources should be used to finance European public goods. Such goods benefit the EU as a whole and cannot be ensured efficiently by any single Member State alone. In line with the principles of subsidiarity and proportionality, the EU should take action when it offers better value for every taxpayer's euro compared to action taken at national, regional or local level alone.

Deepening the Economic and Monetary Union is good for both the euro area and the EU as a whole. A more integrated and performing euro area would bring further stability and prosperity to all in the EU while ensuring that Europe's economic voice is strongly heard on the global stage. The new budgetary instruments presented in this Communication seek to tackle some of the specific needs of euro area Member States and those on their way to joining the euro, while keeping in mind their broader needs and aspirations as EU Member States. In doing so, it also seeks to maximise synergies between existing and future instruments, as they will be presented by the Commission in May 2018 as part of its proposals for the post-2020 EU Multiannual Financial Framework.

2. EU PUBLIC FINANCES TODAY

EU public finances include the EU budget and several other euro area and European mechanisms and financing instruments. These contribute to Member States' economic and social development and support shared EU-level priorities (see appendix for an overview).

The deepening of the Economic and Monetary Union is one these common priorities. It requires determined actions from individual Member States as well as adequate support from the EU budgetary and policy coordination instruments. This communication sets out proposals and ideas on how better to use the EU budget as a way to strengthen the resilience of our interdependent economies. Progress made by both euro and non-euro countries in implementing reforms and converging upwards will be beneficial to all.

The EU budget already has a comprehensive range of instruments at its disposal with a significant impact, ranging from grants to financial instruments, but it remains comparatively small. At about 1% of the total EU Gross Domestic Product, the EU budget is limited in size compared to national budgets and it is further constrained by the need to be in annual balance. Nevertheless, EU instruments have significant strategic and economic impact in several Member States and sectors. Currently, the EU budget does so mostly through grants to economic actors or public

authorities channelled directly by the European Institutions or jointly with the Member States. In particular, in some Member States, the European Structural and Investment Funds have in recent years accounted for more than half of total public investment, contributing strongly to the process of the economic and social catching-up of regions and countries across Europe. Moreover, given that its support is spread over several years, the EU budget also has a certain stabilising effect on the level of public investments over time and, as shown by the support given to the Greek economy, it can play a stabilising role in the event of economic difficulties.⁶ Although limited in size, there are also a number of EU-level instruments that can specifically help cushion economic shocks at national or local level.⁷

Since the start of the current Commission, the European Structural and Investment Funds and other relevant programmes have been complemented by the European Fund for Strategic Investments. The so-called "Juncker Plan" has supported private investment across Europe and provided a flexible way to multiply the effects of limited public funds in triggering private investment.⁸

In very specific cases, the EU is empowered to borrow and lend. This is notably the case for the management for loans provided under the Balance of Payments Facility⁹ to support non-euro Member States in the event of difficulties in their balance of payments. It is also the case for loans provided under the European Financial Stabilisation Mechanism.¹⁰ Since the funds raised and the corresponding loans are *back-to-back* operations, there is no direct impact on the EU budget as long as recipient Member States honour their obligations.

In addition to grants and loans, EU support has also increasingly taken the form of technical support. With the establishment in 2015 of the Structural Reform Support

⁶ On 15 July 2015, the Commission presented the Communication "A new start for jobs and growth in Greece" (COM (2015) 400) and proposed a series of exceptional measures which helped to maximise the absorption of EU funds in support of the Greek real economy.

⁷ Other such mechanisms include the Youth Employment Initiative, which provides support to Member States and regions facing high youth unemployment; the European Union Solidarity Fund, which provides financial assistance to Member States/regions affected by major disasters; and the European Globalisation Adjustment Fund, which provides support to people losing their jobs as a result of major structural changes in world trade patterns or as a result of a global economic and financial crisis.

⁸ By the end of November 2017, the deals approved under the European Fund for Strategic Investments (EFSI) amount to EUR 49.6 billion in financing and are located in all 28 Member States, with the European Fund for Strategic Investments expected to trigger EUR 251.6 billion in investments overall. Around 528,000 small and medium-sized companies (SMEs) are expected to benefit from improved access to finance.

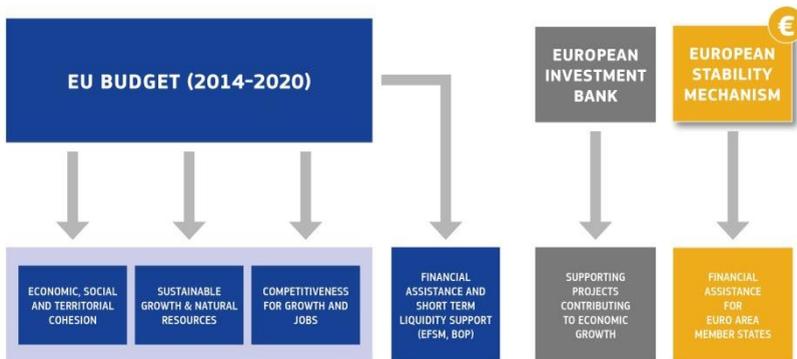
⁹ Council Regulation (EC) No 332/2002 of 18 February establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23 February 2002, p.1).

¹⁰ The European Financial Stabilisation Mechanism was set up on 11 May 2010 on the basis of Council Regulation (EU) No 407/2010 of 11 May 2010 (OJ L 118, 12 May 2010, p.1). It functions in a similar way as the balance of payments facility but is available to all Member States, i.e. including euro area Member States.

Service, the Commission expanded its technical support and is helping Member States, upon their request, to carry out reforms in key policy areas and to strengthen their public administrations.

The actions supported directly by the EU budget are complemented by a number of European or euro area tools and bodies. Some of these operate within the EU institutional framework but outside the EU budget, such as the European Investment Bank. Others are outside the Union legal framework, such as the European Stability Mechanism. While the European Investment Bank supports projects contributing to jobs and growth in Europe and beyond, the European Stability Mechanism provides financial assistance to euro area Member States experiencing severe financing difficulties.

EU-level funds and financial tools today



Source: European Commission. EFSM: European Financial Stability Mechanism. BoP: Balance of Payments.

While the EU budget has always promoted upward social and economic convergence and the lending firepower available at EU level was increased in recent years to respond to extreme circumstances, macroeconomic stabilisation has not been an explicit objective of the EU budget so far. The experience of the crisis years has also shown that the architecture and scope of EU public finances do not yet fully match the specific needs of the Economic and Monetary Union – neither for the euro area Member States, nor for Member States on their way to joining the euro area.

The response to these challenges does not necessarily need to be financial at first. Much progress has already been made and more should be done to improve the regulatory framework and policy framework at both EU and national levels. A roadmap for further work is outlined as part of today's package.¹¹

However, among the lessons drawn over the years, three linked and well-identified challenges have to be better addressed by EU public finances:

- (1) **To promote and support structural reforms in the Member States in order to achieve greater resilience of economic structures and better convergence in performances.** This is notably the case for countries sharing the single currency but also for Member States on their way to joining the euro, as resilient structures are essential for a smooth participation in the euro area. The crisis years have clearly shown the importance of having modern economic and social structures able to respond swiftly to shocks in order to avoid aggravating economic or social distress. They have also had a sizeable impact, exacerbated in certain parts of Europe, in terms of economic output, unemployment, investment and bank bailouts. It is only now almost ten years after the crisis hit that there are signs that the longer-term process of convergence in living standards has resumed.
- (2) **To support euro area Member States to respond better to rapidly changing economic circumstances and stabilise their economy in the event of large asymmetric shocks.** As a result of the unification of monetary policy in a single currency area, macroeconomic policy instruments in the hands of participating Member States are no longer the same. While each country differs and the size and structure of the economy matter in terms of likelihood of being exposed to shocks, the crisis highlighted the limitations of means available to individual euro area Member States to absorb the impact of large asymmetric shocks, with some losing access to the markets to finance themselves. In several instances, this resulted in protracted recessions and negative spill-overs to other Member States.
- (3) **To sever the link between sovereign debt and the situation of the banks, to reduce systemic risks and to reinforce the collective response capacity for possible major bank failures,** also to prevent contagion. A backstop to enhance the capacity of the Single Resolution Fund for coping with bank resolutions was already agreed in principle in 2013. This backstop is meant to act as last-resort insurance and is important to strengthen confidence further in the European banking system.

With this in mind, there are ways to develop shared budgetary instruments at EU level that can contribute to the stability of the euro area and also benefit the EU as a whole. To ensure their success and effectiveness, and to maximise their efficiency for

¹¹ COM (2017) 821, 6 December 2017.

the taxpayer, these instruments must be conceived in full synergy with other budgetary instruments existing in the broader Union framework. The modernisation of EU public finances, with proposals from the Commission to follow in May 2018, will be a unique opportunity for the EU and the euro area to equip themselves with the means that are needed.

3. MODERNISED AND FORWARD-LOOKING EU PUBLIC FINANCES

The Reflection Paper on the future of EU finances set the scene for a modern and forward-looking budgetary framework post-2020. In line with President Juncker's State of the Union address, this Communication focuses on four specific functions:

- **This Communication presents a new way to support national reforms identified in the European Semester of economic policy coordination, building on both budgetary and technical support.** First steps are proposed for the period 2018-2020 in the form of targeted changes to the Common Provisions Regulation governing the European Structural and Investment Funds and a reinforcement of the current Structural Reform Support Programme. For the post-2020 Multiannual Financial Framework, the Commission intends to present a new reform delivery tool to support Member States' agreed reform commitments financially. Moreover, it will propose to strengthen technical support for the period post-2020, building on the experience of the Structural Support Reform Programme.
- **This Communication proposes to set up a dedicated convergence facility for Member States on their way to joining the euro.** For the period 2018-2020, the Commission proposes to establish a dedicated work stream under the Structural Reform Support Programme. For the period post-2020, this should be turned into a dedicated facility. The choice of reform priorities will be discussed and monitored as part of the European Semester.
- **This Communication lays down the key features of a backstop to the Banking Union.** This consists of a credit line or guarantees through the European Stability Mechanism/European Monetary Fund, to be provided directly to the Single Resolution Fund.
- **This Communication presents some key features for the roll-out of a stabilisation function** as a way of preserving investment levels in the event of large asymmetric shocks. The stabilisation function is conceived for the euro area Member States and should be open to the other EU Member States. This would need to be reflected in the eventual financial design.

These functions are described in more detail in the subsequent sections. However, before looking at the fine print, a number of overarching principles should be kept in mind.

- **Firstly, while certain functions target the more specific needs of euro area Member States on the one hand, and non-euro Member States on the other, they are all anchored in a common EU approach and a vision of the broader EU framework.** A clear picture of overall EU public finances – today and tomorrow – is essential when designing these instruments: this will help reinforce the synergies between all actors and financing tools, avoid duplications and, ultimately, ensure a greater return for each euro spent collectively. This is all the more necessary since, as is recalled throughout today's package, the future of euro and non-euro Member States is closely intertwined, and the distinction between them is becoming less relevant over time.
- **Secondly, while the rest of this paper looks mainly at the expenditure side of EU public finances, a modernised system of own resources could also contribute in the future.** For instance, the revenue side of the EU budget already provides a certain degree of economic stabilisation, in particular through the own resource based on Gross National Income, which accounts for almost 75% of total own resources, and which reflects relative economic performance.¹² This means that just as the spending side of the EU budget has evolved over time, further improvements should also be considered on the revenue side.¹³ Possible sources of further revenues were for instance identified by the High Level Group for Own Resources.¹⁴ These considerations are not developed in this text but will be explored in view of the post-2020 Multiannual Financial Framework. They can be complementary to what is presented below.
- **Thirdly, these functions should operate hand in hand with the policy framework provided for by the European Semester of economic policy coordination,** including the Stability and Growth Pact. The European Semester is the main tool for the coordination of Member States' economic policies at EU level. It allows Member States to discuss their economic, social and budgetary priorities and to monitor progress at specific times throughout the year. In the

¹² The fact that these contributions are based on the Gross National Income of each Member State means that their absolute amount changes over time depending on the economic cycle, all other things being equal.

¹³ Unlike national budgets, the EU budget cannot incur debt, as its revenue and expenditure must be in annual balance. Instead, it relies on financing through "own resources" There are three main types of own resources today: contributions from Member States based on their income level measured by Gross National Income, contributions based on Value Added Tax, and customs duties collected at the external borders of the Union.

¹⁴ See the Reflection Paper on the future of EU finances of 28 June 2017, which also took inspiration from the final report and recommendations of the High Level Group on Own Resources December 2016. This Group was chaired by former Italian Prime Minister and EU Commissioner Mario Monti and was composed of members designated by the European Parliament, the Council and the European Commission.

context of the European Semester, the Stability and Growth Pact and the Macroeconomic Imbalances Procedure serve to ensure sound public finances and to prevent risks of imbalances. Progress has also been made in establishing a greater link between the priorities of the European Semester and the European Structural and Investment Funds, by introducing ex-ante and macroeconomic conditionalities.¹⁵ Moreover, by making best use of the flexibility built into the existing rules of the Stability and Growth Pact, the current Commission has strengthened the link between investment, structural reforms and fiscal responsibility, while taking better account of the cyclical economic conditions faced by Member States.¹⁶ Looking ahead, it will be essential to keep strengthening the coherence and impact of all these instruments.

- **Fourthly, the four functions discussed here are closely interlinked.** They can operate as part of the global approach to a modernised EU framework. Given the focus on the Economic and Monetary Union, the explanations naturally refer to the EU priorities and financing instruments linked to jobs, growth, investment and macroeconomic stability. However, this does not prejudice other elements of the Multiannual Financial Framework proposals that will follow in May 2018.

For the period post-2020, it is possible to design a way forward that maximises the impact of EU public finances. This way forward is summarised in the graph below. A lot of the elements are well known: as is the case today, a number of EU funds and, in particular, the European Structural and Investment Funds will continue to exist as a vehicle for fostering real convergence, alongside other financing sources such as those provided under the "Juncker Plan" and other EU-level instruments. Irrespective of the exact funding source, support will still take one of the three basic following forms: technical assistance, grants or loans.

National reform priorities will still be identified by Member States as part of their annual national programmes in the context of the European Semester of economic policy coordination. As explained in the 2018 Annual Growth Survey,¹⁷ efforts need to continue on implementing reforms that are underway and this often takes time and discussion. This is why the Commission is advocating a more multiannual approach and a more collective review of reform commitments.

Alongside national reform priorities, Member States will develop their own investment priorities, which could be reflected in a national platform of investment. These platforms would bring together relevant actors, at different levels of authority, in each Member State, in order to define multiannual investment priorities, to

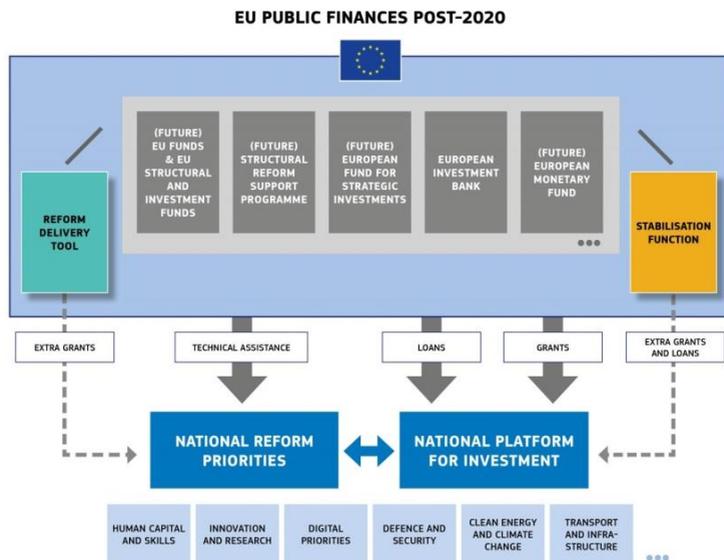
¹⁵ See also Article 4 of the Common Provisions Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013.

¹⁶ COM (2015) 12, 13 January 2015.

¹⁷ COM(2017) 690, 22 November 2017.

support pipelines of projects, which could also be part of European projects, and to identify sources of funding and support, including from the EU.

Maximising the impact of EU public finances: a possible way forward



Source: European Commission

While this construction is relatively similar to today's realities, two new features would be added. The first one is a **reform delivery tool** that would provide extra grants to support national efforts in implementing the reforms identified as priorities in the European Semester. The second one is a **stabilisation function** that could provide quick support and help to maintain national investment levels in the event of large asymmetric shocks, typically by filling the financing gap of pre-existing pipelines of projects and/or supporting skills upgrading. These two new features are further explained below.

4. STRUCTURAL REFORM SUPPORT

Appropriate national policies are essential for the smooth functioning of a more integrated Economic and Monetary Union. Since many critical policy areas that are decisive remain primarily in the hands of the Member States, their coordination and the

sequencing of reforms under the European Semester is essential to maximise their effectiveness, not only at national level, but also at EU level.

Greater support to structural reforms could be achieved through two complementary legs:

- a) a reform delivery tool to support Member States' reform commitments, and
- b) technical support for specific actions at the request of the Member States.

A reform delivery tool to support Member States' reform commitments

With a view to supporting Member States in implementing the reforms identified in the context of the European Semester, the Commission intends to propose a new reform delivery tool under the post-2020 Multiannual Financial Framework. This new tool would be made available to Member States committing to reforms discussed in dialogue with the Commission and agreed in reform commitments.

This new reform delivery tool would seek to support a broad range of reforms. The focus should be on those reforms that can contribute most to the resilience of domestic economies and have positive spill-over effects on other Member States. These include reforms in product and labour markets, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms.

The reforms to be supported would be identified in multiannual *reform commitment packages* presented and monitored together with the National Reform Programmes. The reform commitments would be proposed by the Member States themselves and would include a set of reform measures with clear milestones and targets (see box below). Member States with excessive imbalances identified in the Macroeconomic Imbalances Procedure would be invited to present such reform commitments as a means of tackling the issues that are highlighted. A peer review process would ensure that the reform proposals benefit from the experience of other Member States as well as an assessment by the Commission.

Once the reform commitment package is agreed, the monitoring and reporting on the implementation of its milestones would be aligned with the European Semester. National Reform Programmes would be the source of information on progress and should provide information on steps towards reform completion. The annual Country Reports produced by the Commission's services would provide an updated assessment of reform progress. The process for the award of support under this tool would need to be carefully calibrated to make sure the decision is timely and has sufficient ownership.

For the period 2018-2020, such a system could be tested in a pilot phase by offering the possibility to Member States to use part of the performance reserve in the current European Structural and Investment Funds to support reforms instead of specific projects. To this end, amendments to the Common Provisions Regulation are presented today as part of the package.

Support to structural reforms via a reform delivery tool

- 1. Relevant structural reforms should be proposed by the Member States themselves within the context of the challenges identified in the European Semester process.*
- 2. In a first phase, following a dialogue with the Commission, a reform commitment package would cover a number of reforms to be implemented over a three-year period at the start of the Multiannual Financial Framework programming period post-2020.*
- 3. The agreed reform commitment packages would provide for a detailed set of measures, milestones for implementation and a calendar for completion within a maximum period of three years. Member States would report on progress together with their National Reform Programmes.*
- 4. A second round of reform commitment packages could be agreed in the course of the programming period, for example at the request of a new government.*
- 5. Criteria would be drawn up by the European Commission for assessing progress at the different milestones in order to help Member States with their reforms. The quantitative and qualitative targets and milestones would provide the basis for the assessment for the financial support.*

Technical support for specific actions at the request of a Member State

As a complement, the Commission is planning to enhance significantly the technical support that it offers to Member States for the design and implementation of reforms. Since the Structural Reform Support Programme was launched, the requests for support by Member States have significantly exceeded the amount of funding available for the annual cycles (see box below).

As a first step, the Commission proposes to double the financial envelope of the current Structural Reform Support Programme, thus bringing it to EUR 300 million for the period up to 2020, also to cover the needs of Member States on their way to joining the euro (see below). This would allow for the rapid deployment of additional technical support for envisaged structural reforms at the current juncture.

Based on this experience, the Commission also intends to propose a follow-up programme to the Structural Reform Support Programme under the post-2020 Multiannual Financial Framework.

The Structural Reform Support Programme

The Structural Reform Support Programme was agreed early in 2017 by the European Parliament and the Council following a proposal from the Commission. Its aim is to finance tailor-made technical support to Member States to help them with their reform plans. It has a budget of EUR 142.8 million for the period from 2017 to 2020. The support is available to all EU Member States, is demand-driven and requires no co-financing.

The technical support covers reforms in the areas of governance and public administration, public financial management, the business environment, labour markets, health and social services, the financial sector and access to finance. It draws on good practices and expertise from across the European Union, as well as from international organisations, the private sector and within the Commission. The programme is implemented by the Commission's Structural Reform Support Service in cooperation with other Commission services and mobilises experts from all over Europe and beyond.

The Structural Reform Support Service has so far supported 15 Member States to carry out over 150 projects. Under the Structural Reform Support Programme 2018 cycle, the Structural Reform Support Service has received 444 requests for support from over 20 Member States, leading to a substantial excess demand for the Programme's limited budget.

5. A DEDICATED CONVERGENCE FACILITY FOR MEMBER STATES ON THEIR WAY TO JOINING THE EURO

The euro is the currency of the EU¹⁸ and all Member States – except Denmark and the United Kingdom – are legally committed to join the euro area eventually. As President Juncker said in his 2017 State of the Union address: *"The euro is meant to be the single currency of the European Union as a whole. All but two of our Member States are required and entitled to join the euro once they fulfil all conditions. Member States that want to join the euro must be able to do so."*

¹⁸ In Declaration 52 annexed to the Treaty of Lisbon, 16 Member States (Belgium, Bulgaria, Germany, Greece, Spain, Italy, Cyprus, Lithuania, Luxembourg, Hungary, Malta, Austria, Portugal, Romania, Slovenia and Slovakia) declared that for them the "euro as the currency of the European Union" would continue as a symbol to express the sense of community of the people in the European Union and their allegiance to it. By means of a parliamentary resolution of 27 November 2017 of the French National Assembly, France has taken steps to adhere to that declaration.

As foreseen in Article 140 of the Treaty on the Functioning of the EU, Member States need to have achieved a high degree of sustainable convergence in order to adopt the euro. This is assessed based on the fulfilment of the four convergence criteria listed in Article 140 and in Protocol No 13 annexed to the Union Treaties. In addition to these formal criteria, the resilience of the economic structures is also essential for the smooth transition and participation in the euro, in particular to absorb shocks.

The resilience of economies depends on a number of factors. Member States should manage their budgets in accordance with the principles of sound public financial management, creating fiscal buffers in good times and ensuring a high return on public expenditure, including through well-functioning public administrations. Their regulatory and supervisory institutions should be ready to participate in the Banking Union. Properly functioning labour and product markets should allow for the rapid expansion of new activities and high levels of employment and productivity.

As part of its technical assistance activities, the Commission proposes to set up a dedicated work stream to offer targeted support to Member States on their way to joining the euro. The technical support will be offered upon request and will cover all policies that can help achieve a high degree of convergence, such as support for reforms in the areas of public financial management, the business environment, the financial sector, labour and product markets, and the public administration. This technical support will be funded through the Structural Reform Support Programme. It will be fully voluntary and offered without any co-financing from the beneficiary Member States. This proposal is reflected in the amendment to the Structural Reform Support Programme Regulation presented alongside this package.

For the period post-2020, the Commission will propose a dedicated convergence facility, as part of the follow-up to the Structural Reform Support Programme, in order to support Member States in their concrete preparation for a smooth participation in the euro area. This is irrespective of the formal process towards euro adoption, which is part of a specific monitoring process.¹⁹

Member States concerned can also decide, already now, to reprogramme part of their technical assistance budget available under the European Structural and Investment Funds for projects to be supported by the Structural Reform Support Service. Progress with the reforms on the ground, including those linked to the reform delivery tool presented above, will continue to be monitored in the context of the European Semester.

¹⁹ According to Article 140 of the Treaty on the Functioning of the EU, the Commission and the European Central Bank present a report at least every two years. The next reports are expected in May 2018.

6. A BACKSTOP FOR THE BANKING UNION

The creation of a backstop for the Single Resolution Fund was agreed by Member States in 2013, as a complement to the political agreement on the Single Resolution Mechanism Regulation.²⁰ As last-resort insurance in the event of a bank resolution, a common backstop would only be activated in the event that the resources available in the Single Resolution Fund were insufficient to finance the resolution of the bank(s) concerned. This would enhance confidence of all parties concerned in the actions to be taken by the Single Resolution Board.

Four years on, this backstop is still not operational. The September 2017 State of the Union address and the October 2017 Communication on completing the Banking Union²¹ emphasise the need for such a backstop to be made operational as a matter of priority.

The Reflection Paper on the deepening of the Economic and Monetary Union identified certain criteria that the backstop should meet to be operational in the event of a crisis. It should be of adequate size to be able to fulfil its role and be able to be activated swiftly in times of crisis. It should also be fiscally neutral, given that the Single Resolution Mechanism Regulation stipulates that the banking sector in the Banking Union must reimburse any potential disbursements from the Single Resolution Fund.

A common backstop through the European Stability Mechanism/European Monetary Fund

The Commission is today putting forward a proposal for the setting up of a European Monetary Fund, which foresees that the future European Monetary Fund should provide a credit line or guarantees directly to the Single Resolution Fund.

Most Member States have expressed their support for the integration of the backstop function into the European Stability Mechanism. The Commission welcomes the technical preparatory work already carried out to this end. This is also the most pragmatic and efficient solution. The European Stability Mechanism (in the future the European Monetary Fund) would build on its experience and proven track record of tapping markets, even in a challenging environment.

This arrangement should be extended as needed to include on an equal footing all members of the Banking Union. Whenever a new Member State joins the Banking

²⁰ Statement of Eurogroup and Economic and Financial Affairs Council Ministers on the Single Regulation Mechanism backstop, 18 December 2013.

²¹ COM(2017) 592, 11 October 2017.

Union without joining the euro area, it should provide a national parallel facility alongside the European Monetary Fund's support to the Single Resolution Fund. Appropriate governance arrangements will ensure that the legitimate interests of non-euro area Member States participating in the Banking Union are taken into account. This is foreseen in today's proposal for the creation of a European Monetary Fund.

Governance

Recognising the importance of managing the failure of a bank while avoiding any contagion or disruption of financial stability, the Single Resolution Mechanism Regulation provides for specific decision-making arrangements. The decision-making procedures for the adoption of a resolution scheme are subject to short deadlines so that they can be completed, when necessary overnight, before markets reopen.²²

The backstop should be available at the point of time when the resolution scheme enters into force. In the event that amounts additional to those readily available in the Single Resolution Fund are needed (i.e. the backstop), the European Monetary Fund's decision-making process on the use of the backstop must be quick and predictable. It must not entail additional conditionality beyond the requirements of the Regulation on the Single Resolution Mechanism.²³ The appropriate governance arrangements therefore need to be rapid and reliable, ensuring equal treatment across the Banking Union.

7. STABILISATION FUNCTION

A stabilisation function at European level would provide the possibility to activate resources rapidly to deal with shocks that cannot be managed at the national level alone. The Five Presidents' Report and the Reflection Paper on the deepening of the Economic and Monetary Union have set out the rationale for such an instrument and important principles have been identified, which remain valid.²⁴ Access to the stabilisation function would be subject to eligibility criteria and an agreed mechanism

²² Article 18 of the Single Resolution Mechanism Regulation.

²³ Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010; see Article 18.

²⁴ A number of guiding principles were mentioned. A stabilisation instrument should i) minimise moral hazard and not lead to permanent transfers, ii) be strictly conditional on clear criteria and continuous sound policies, in particular those leading to more convergence within the euro area, iii) be developed within the EU legal framework, iv) be open and transparent vis-à-vis all EU Member States, and v) not duplicate the role of the European Stability Mechanism – the future European Monetary Fund – as crisis management tool.

to trigger its use. The rest of this section envisages a stabilisation function intended for the euro area Member States and open to all who wish to participate.

Such a stabilisation function would only complement the stabilisation role played by national budgets in the event of large asymmetric shocks. Given their central role in the economy, national budgets will continue to be the main fiscal policy instrument for Member States to adjust to changing economic circumstances. This is why Member States need to continue to build up and sustain adequate fiscal buffers, notably in good times, as foreseen by the Stability and Growth Pact.²⁵ In case of a downturn, Member States would first use their automatic stabilisers and discretionary fiscal policy in line with the Pact. Only if these buffers and stabilisers are not sufficient, in the case of large asymmetric shocks, should the stabilisation function at European level be triggered.

Such a function would help soften the effects of asymmetric shocks and prevent the risk of negative spill-overs. The objective is to provide resources to a Member State hit by a shock that would otherwise force it to turn to the market for financing – in potentially difficult circumstances – with possible impacts on the deficit/debt position of the Member State concerned.

Key features of a stabilisation function

In order to be effective, the stabilisation function should fulfil several criteria. In particular, it should be:

- **Distinct from and complementary to existing instruments in the EU public finances toolbox.** Such a function should fill the gap between, on the one hand, existing instruments financed from the EU budget for jobs, growth and investment and, on the other hand, financial assistance under the European Monetary Fund in extreme cases. Looking ahead, it is also important to consider the role of existing instruments under the EU budget with some stabilisation effect.²⁶ These could also be enhanced to assist in shock absorption more effectively in the future, as a complement to what is presented here. Likewise, it is worth considering the idea of a temporary increase of the EU co-financing rate and/or a possible modulation of the level of pre-financing of the European Structural and Investment Funds depending on the circumstances.²⁷

²⁵ In recent years, the Stability and Growth Pact has been reinforced to take account of what makes sense for a given Member State at the particular juncture of its economic cycle, for instance to avoid being contractionary when the circumstances call for the reverse. The Stability and Growth Pact provides for additional buffers in good times and the necessity for a smaller fiscal effort to be undertaken during difficult economic conditions.

²⁶ See footnote 7 in particular for examples of existing EU instruments designed to smoothen and/or absorb shocks.

²⁷ Such exceptional measures were taken to support Greece in recent years. Modulating co-financing rates could have a one-off stabilisation effect as it would help to keep afloat public investment which otherwise the Member States may be unable to finance. Adjusting pre-financing level could for instance mean advancing payments from

- **Neutral over the medium-term and not lead to permanent transfers between Member States.** The stabilisation function should be constructed in such a way that all participating Member States would have the same probability to benefit and would contribute consistently.
- **Contribute to sound fiscal policy and minimise moral hazard.** There would be no conditionality attached to the support but there would be strict, pre-defined eligibility criteria based on sound macroeconomic policies in order to access the stabilisation function. As a general principle, only Member States that comply with the EU surveillance framework during the period preceding the large asymmetric shock should be eligible for access. This will avoid moral hazard and create an additional incentive for compliance with sound fiscal and structural policies.
- **Contribute to financial stability.** It should reduce the risk that a beneficiary Member State ends up needing a programme from the European Monetary Fund.
- **Economically meaningful in the steady state.** It should be large enough to provide real stabilisation at Member State level. Estimates suggest that to be effective in the euro area, such a function should allow for overall net payments of at least 1% of Gross Domestic Product. Moreover, to be credible, the stabilisation function needs to have sufficient resources available, even in the middle of the downturn. This could imply some form of a borrowing capacity, bearing in mind the need to ensure that the EU budget remains in balance.
- **Timely and effective.** For those Member States fulfilling the eligibility criteria for accessing the stabilisation function, triggering should be activated automatically and rapidly on the basis of pre-defined parameters (for example, based on a large temporary negative deviation from their unemployment or investment trend).
- **Include a budget support/grant component.** Relying only on a system of loans could have a limited impact, since the Member State could simply borrow in the markets or access one of the existing precautionary credit lines. On the other hand, a loan component has the merit of addressing some possible liquidity concerns without creating risks of permanent transfers. A stabilisation instrument via a system of grants could have stronger and more immediate macroeconomic effects.

There are different ways of envisaging such a stabilisation function. The Commission outlined three different options in its Reflection Paper on the deepening of the Economic and Monetary Union. First, a European Investment Protection Scheme could protect investment in the event of a downturn, by supporting well-identified

the European Structural and Investment Funds agreed for the whole Multiannual Financial Framework period, subject to lower payments later on.

priorities and already planned projects or activities at national level, such as infrastructure or skills development. Second, a European Unemployment Reinsurance Scheme could act as a "reinsurance fund" for national unemployment schemes. Third, a rainy day fund could accumulate funds from Member States on a regular basis and disbursements would be triggered on a pre-defined basis. These options all have their merits and can also be combined over time.

What the Commission envisages here is a stabilisation function which can support investment levels at national level and which can be developed over time, starting with loans and a relatively limited grant component. This would be in line with the importance this Commission attributes to investment as a driver of long-term growth, and would allow for a swifter roll-out in comparison to the two other options. Given the architecture and composition of the EU budget (annual balance and limitation on own resources), a stabilisation function would have to be constructed in such a way that it can reach its full potential over a certain period of time, notably to reach the necessary financial firepower.

The stabilisation function: a dedicated vehicle bringing EU public finances together to respond to large asymmetric shocks

In this construction, a dedicated vehicle managed by the Commission could bring together different sources of funding at European level in an efficient way to provide the stabilisation function. This vehicle would be based on the logic of a European Investment Protection Scheme and would aim to support well-identified priorities and already planned projects or activities at national level, such as those identified in the context of the national investment platforms mentioned above.

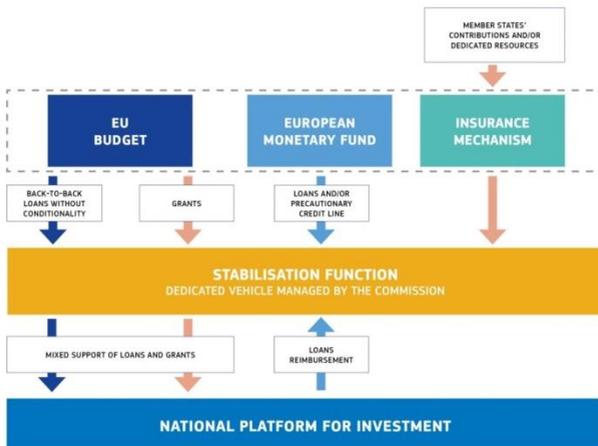
Subject to strict eligibility criteria, the Member State facing a large asymmetric shock would automatically be entitled to benefit from the assistance provided through the stabilisation function. A mixed support based on loans and budget support would kick in, which could be based on three components that can be progressively developed:

- **The EU budget and the European Monetary Fund could provide loans guaranteed by the EU budget to the affected Member State.** The European Monetary Fund could play a role of back-office to the stabilisation function by providing precautionary loans to deliver short-term liquidity support. This would be complemented by back-to-back loans guaranteed by the EU budget (for this, a limited borrowing capacity could be constructed in the post-2020 Multiannual

Financial Framework²⁸). The beneficiary Member State would reimburse those loans to the stabilisation function.

- The EU budget could provide some limited annually budgeted grant support to the Member States concerned.** The corresponding appropriations would be committed on a specific budget line, possibly as part of the European Structural and Investment Funds for the participating Member States. This budgetary line would feed every year into the stabilisation function to help build up its capital. To avoid the crowding-out of resources for other EU policies, the related budgeted expenditure would be counted against the 'margin' between the Multiannual Financial Framework and the own resources ceilings.²⁹
- An insurance mechanism based on voluntary Member States' contributions could complement the grant support of the stabilisation function over time.** Member States could contribute annually to this dedicated fund outside the EU budget and/or could agree on setting up a dedicated work stream of resources. Once Member States have committed to contribute and sufficient resources are accumulated, this mechanism would reinforce the capacity of the stabilisation function.

A European stabilisation function in support of investment



Source: European Commission

²⁸ It has to be noted that an increase of the own resources ceiling could be necessary, depending on the amount envisaged.

²⁹ The own resources decision and the Multiannual Financial Framework Regulation would have to be adjusted accordingly.

The Commission will continue to assess the further implications for the EU budget in the context of the preparation of the post-2020 Multiannual Financial Framework and will make the necessary proposals.

8. CONCLUSIONS

With this Communication, the Commission presents ideas for new budgetary instruments for a stable euro area within the Union framework.

For the period 2018-2020, the Commission proposes:

- To ensure a swift agreement, by mid-2018, and operationalisation, by 2019, of a backstop function to the Single Resolution Fund. This proposal is contained in the proposal for the establishment of a European Monetary Fund in the Union framework.
- To strengthen the activities of the Structural Reform Support Service in order to support reforms in all Member States, and to put in place a dedicated work stream for Member States on their way to joining the euro. This is reflected in the proposal to amend the Structural Reform Support Programme Regulation, with the objective of doubling the budget available for the activities of the Structural Reform Support Service for the period up to 2020.
- To extend the possibility to use the current performance reserve in the European Structural and Investment Funds in support of structural reforms, as a way to test the idea of a reform delivery tool in a pilot phase. This is reflected in a targeted change to the Common Provisions Regulation covering the European Structural and Investment Funds.

For the period after 2020, the Commission intends to present its proposals in May 2018, as part of the post-2020 Multiannual Financial Framework, which would include the following:

- A reform delivery tool to support Member States' reform commitments.
- Further technical support for specific actions at the request of the Member States.
- A dedicated convergence facility for Member States on their way to joining the euro.

- A stabilisation function for euro area Member States and open to all, in the event of large asymmetric shocks.

Appendix 1: Overview of available funds and firewalls

| Legal framework | Instrument | Type of support | Size | Source of funding | Repayment | Function | Geographical aspects |
|--|--|-------------------------------|--|---|--|--|--|
| EU budget 2014-2020 | Investment programmes – European Structural and Investment Funds | Grants, financial instruments | Capacity of €461 bn | EU budget | EU budget | Supports medium and long term investment priorities of the EU and Member States | Stronger in Member States and regions with lower GDP |
| | Grants, financial instruments | | Capacity of €107 bn | EU budget | EU budget | Supports medium and long term investment priorities of the EU | For all EU Member States |
| | European Financial Stabilisation Mechanism | Back-to-back loans | Lending capacity up to €60bn | Borrowing backed by EU budget | Repayment from the Member State receiving the loan | Provides short-term liquidity to Member States in economic difficulty | For all EU Member States |
| | Balance of Payments | | Lending capacity Back-to-back loans up to €50 bn | Borrowing backed by EU budget | Repayment from the Member State receiving the loan | Provides short-term liquidity to Member States in economic difficulty | Only for non-euro Member States |
| | Structural Reform Support Programme | Technical assistance | Capacity of €0.14 bn | EU budget | EU budget | Technical assistance support to the structural reform efforts of the Member States | For all EU Member States |
| European Investment Bank activities and European Fund for Strategic Investments | Loans, financial instruments | | Mobilises over €100 bn per year | Borrowing backed by EU budget and EIB capital | Repayment of the loans by beneficiaries | Supports medium and long term investment priorities of the EU and Member States | Based on the quality of projects at EU level |
| European Stability Mechanism | Favourable loans | Favourable loans | Lending capacity up to €500 bn | Borrowing backed by own capital | Repayment from the Member State receiving the loan | Provides short-term liquidity to Member States in economic difficulty | Only for euro area Member States |

Source: European Commission

COMMUNICATION FROM THE COMMISSION

to the European Parliament, the European Council and the European Central Bank

A European Minister of Economy and Finance

COM(2017) 823 final, 06.12.2017

1. INTRODUCTION

In his 2017 State of the Union address and accompanying Letter of Intent, President Juncker mentioned the possible creation of the post of a European Minister of Economy and Finance.¹ In his words, “*the Commissioner for economic and financial affairs – ideally also a Vice-President – should assume the role of Economy and Finance Minister. He or she should also preside the Eurogroup.*” This Communication follows up on that announcement. It builds on the debate shaped by the Reflection Paper on the deepening of the Economic and Monetary Union² and develops a practical way forward. It also builds on the ideas of the Five Presidents’ Report,³ ideas expressed by the European Parliament⁴ and those of the Euro Summit in October 2011, where Heads of State and Government already discussed the possibility of a full-time Eurogroup President.⁵

The current architecture of the Economic and Monetary Union is intrinsically complex. Compared to monetary policy, which is unified for euro area Member States and easily identified by citizens, economic policy is essentially managed by individual Member States and coordination efforts at EU and euro area level are conducted by many actors. The relevant institutions have evolved incrementally over time and combine EU institutions and some intergovernmental bodies. These bodies have their own chairpersons or Presidents, have developed their own accountability systems and work under various and sometimes overlapping legal frameworks. This has led to complex

¹ President Jean-Claude Juncker’s State of the Union Address 2017, 13 September 2017.

² COM(2017) 291, 31 May 2017.

³ 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.

⁴ In its resolution of 16 February 2017 on possible evolutions of and adjustments to the current institutional set-up of the European Union, the European Parliament called for “an executive authority [of the Union] to be concentrated in the Commission in the role of an EU Finance Minister”.

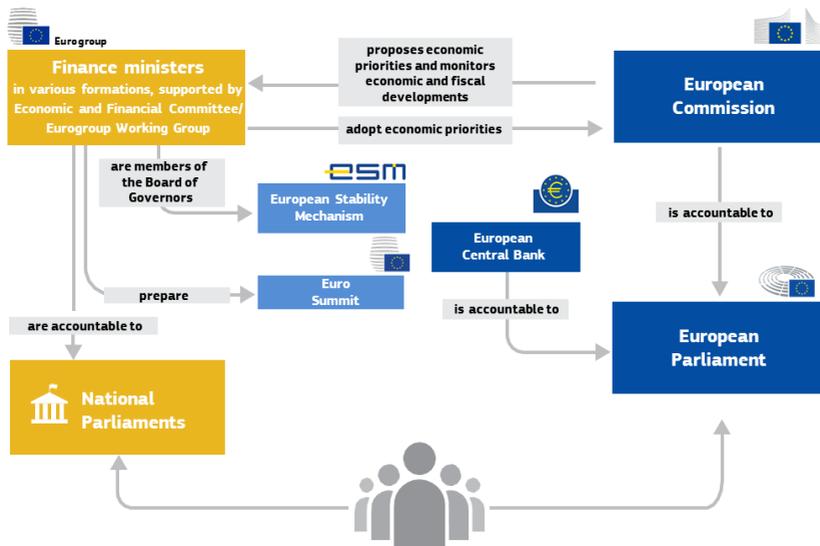
⁵ During the Euro Summit on 26 October 2011, Heads of State or Government of the Euro Area agreed on ten measures to improve the governance of the euro area, where it was agreed that a decision on whether the President of the Eurogroup “*should be elected among Members of the Eurogroup or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent*”.

decision-making processes, which have often been criticised for not being sufficiently understandable and efficient. It also means that EU policies and instruments require a lot of coordination between actors to be applied in a fully coherent way.

As highlighted in the Five Presidents’ Report, effective governance and further strengthening democratic accountability are essential parts towards completing the Economic and Monetary Union. The creation of a European Minister of Economy and Finance would be a further important step in this direction. By combining existing functions at EU level and bringing together closely linked policy instruments, the Minister would help to create new synergies and thus improve the overall coherence and effectiveness of EU economic policy-making. Acting within the EU legal framework, the Minister would also contribute to strengthening the transparency of EU policy-making, accountability towards the European Parliament and the interaction with national authorities, without impinging on national competences or on matters best dealt with at national level.

The Commission has in recent years gradually elevated the coordination of economic matters within the College. Under the Juncker Commission, the role of the Vice-Presidents, including on matters dealing with the euro, the European Semester of economic policy coordination and social dialogue, has been further strengthened to play even more of a coordinating function. This allows a holistic vision of a wide range of topics related to several policy portfolios and their respective services.

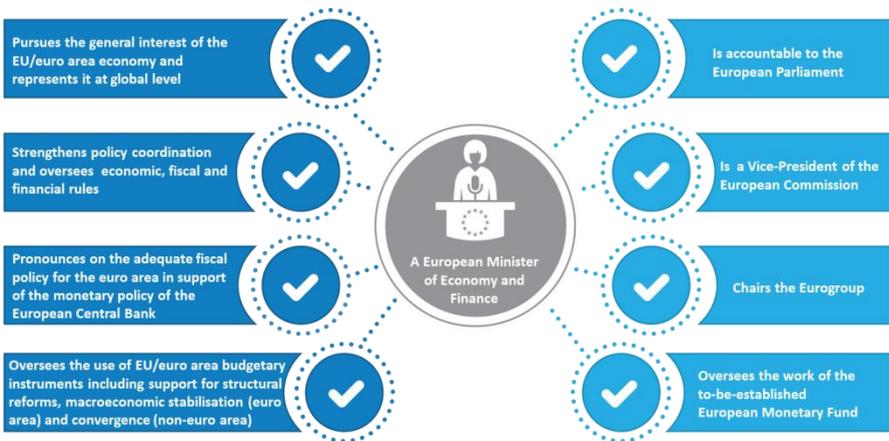
The current governance of the Economic and Monetary Union is complex



Source: European Commission

With this Communication, the Commission sets out how a future European Minister of Economy and Finance could play a role in the governance architecture of the Economic and Monetary Union. In so doing, the Communication details the key functions of a European Minister of Economy and Finance, outlines the institutional setting in which the Minister would operate and sets out a potential timeline for the setting up of this new position. In particular, the Communication describes the added value of an ultimate merger of the function of Commission Vice-President in charge of the Economic and Monetary Union with that of President of the Eurogroup, and it highlights that this could already be achieved under the existing Union Treaties.

Possible responsibilities of the European Minister of Economy and Finance in a steady state



Source: European Commission

2. FUNCTIONS OF A EUROPEAN MINISTER OF ECONOMY AND FINANCE: ENSURING COHERENCE AND EFFICIENCY

The possible key functions of a European Minister of Economy and Finance in their final state are set out below. Bringing together these functions would help strengthen the overall coherence and efficiency of EU economic policy-making.

Pursuing the general interest of the EU and euro area economy and representing it at global level

Today, the common interest of the EU and the euro area is still not sufficiently represented in the public debate and decision-making across Europe. While monetary policy is centralised at euro area level, budgetary, tax and sectoral policies are all decentralised, reflecting national competences and circumstances, without spontaneously or necessarily reflecting shared priorities. The issuance of a recommendation on the economic policy of the euro area as part of the European Semester has improved the coordination of euro area policies in recent years. However, its implementation relies on the Member States' collective willingness and the coordination of policies requires constant steer and monitoring at EU level.

At the same time, the euro has established itself as a leading world currency, but its global representation is still very much fragmented. Since its launch, the euro has become the second most used currency around the world. However, in international financial institutions, such as the International Monetary Fund, the euro area is not represented as a single entity. The external economic representation of the EU and of the euro area is currently divided, with different roles assigned to the Commission, the European Central Bank, the President of the Eurogroup and the EU Council Presidency. This fragmented representation often means that the euro area punches well below its political and economic weight across the world.

A European Minister of Economy and Finance could help to promote better the general interest of the Union and the euro area economy, both internally and at global level. With the post of the Minister, a key interlocutor would be established at EU level in the areas of economic, fiscal and financial policies vis-à-vis the EU institutions and bodies, the Member States and the general public. The Minister would also naturally assume the function of external representation of the euro.⁶

Strengthening policy coordination and overseeing economic, fiscal and financial rules

Economic policy coordination in the EU has been significantly bolstered as a consequence of the economic and financial crisis. The European Semester has been continuously improved to foster reforms and their implementation. The recently created Structural Reform Support Service of the Commission provides technical support to Member States to help them with these efforts. This has been supported by further initiatives at EU level, including on tackling youth unemployment, the fight against tax evasion and recently, the proclamation of the European Pillar of Social Rights. The EU has also made decisive steps towards a Capital Markets Union and the completion of the Banking Union, which need to be continued. However, the implementation of reforms in the Member States is still uneven. There are also missed opportunities in

⁶ See also COM(2015) 602 final of 21 October 2015 on a roadmap for moving towards a more consistent external representation of the euro area in international fora and COM(2015) 603 final of 21 October 2015 on a Commission proposal for a Council Decision laying down measures in view of progressively establishing unified representation of the euro area in the International Monetary Fund.

terms of improved coordination and learning from each other, and there is a constant need to align national and EU priorities in the light of changing circumstances.

A European Minister of Economy and Finance could help further strengthen economic policy coordination and ensure consistency across policy areas, building on the work already done by the Commission together with the Member States. Working in close bilateral and multilateral dialogue with national authorities and the European Parliament, the Minister could promote the coordination and implementation of reforms in the Member States. As structural reforms can have positive spill-over effects, the Minister would also bring added value in looking at the optimal reform agenda for the EU and the euro area as a whole.⁷

Pronouncing on the adequate fiscal policy for the euro area in support of the monetary policy of the European Central Bank

Together with monetary policy, fiscal policy plays a key role in stabilising the macroeconomic environment, while also serving the broader goals of fiscal sustainability and redistribution.⁸ The Commission regularly provides recommendations to the Council on Member States' fiscal policies, taking into account the flexibility enshrined in the existing set of EU fiscal rules.⁹ In recent years, the Commission and the Council have also put a greater focus on the aggregate fiscal stance of the euro area, considering the general interest of and collective responsibility for the euro area as a whole.¹⁰ However, the successful implementation of an appropriate aggregate fiscal stance for the euro area requires the individual and collective willingness of the Member States to follow through.

A European Minister of Economy and Finance could help in the identification and pursuit of an adequate fiscal policy for the euro area as a whole. As a member of the Commission, the Minister would coordinate the surveillance of Member States' fiscal policies, ensuring fiscal sustainability and applying the Stability and Growth Pact with the economic reading that the rules foresee. Part of this task would also be to assess the appropriateness of the fiscal stance of the euro area, thereby contributing to

⁷ COM(2017) 825 and COM(2017) 826 of 6 December 2017.

⁸ Also the G20 Leaders' declaration of 8 July 2017 underlined the need to use fiscal policy – next to monetary and structural policies – individually and collectively to achieve the goal of strong, sustainable, balanced and inclusive growth, while enhancing economic and financial resilience.

⁹ COM(2015) 12 final, 13 January 2015.

¹⁰ The “fiscal stance” is usually understood as the orientation given to fiscal policy by governments' discretionary decisions on tax and expenditure. It determines the role that fiscal policy plays in the economic cycle. If well designed, notably in combination with reforms and support to investment as well as the help of a future fiscal stabilisation function, a more active fiscal policy can contribute to a faster reduction in unemployment in the short run, but also to lift the medium-term (potential) growth in the euro area. See also COM(2016) 727 final, 16 November 2016.

finding a balance between the fiscal interests of the Member States and the best solution for the euro area as a whole. Another task would be to promote the quality and best composition of public finances and the functioning of national fiscal frameworks with a view to maximising their impact on jobs and growth. In so doing, the Minister would build on the views of the European Fiscal Board¹¹ and be a key interlocutor for national fiscal councils.

Overseeing the use of EU and euro area budgetary instruments including instruments in support of reforms, macroeconomic stabilisation and convergence

The EU budget and other EU and euro area budgetary instruments already play a strategic role in supporting Member States to foster convergence, long-term growth, investment and financial stability. About half of the EU funding is currently channelled to concrete projects through the five European Structural and Investment Funds. The link between these funds and the priorities of the European Semester has been strengthened over the years with a view to supporting shared priorities. The actions supported by the EU budget are complemented by a number of European and euro area tools and bodies, such as the European Investment Bank and the European Stability Mechanism. However, the crisis has shown that the architecture and scope of EU public finances do not yet fully capture the specific needs of the euro area. Whereas the EU and euro area have increased their lending firepower in recent years, the potential for macroeconomic stabilisation and supporting convergence is still limited.¹² Looking forward, the Commission proposes today a number of new budgetary instruments for a stable euro area within the Union framework.¹³

The European Minister of Economy and Finance would coordinate the use of relevant EU and euro area budgetary instruments and maximise their impact in support of shared priorities. The Minister would endeavour to make sure that these instruments are used coherently and effectively and would constantly seek synergies in their implementation, in close cooperation with the Commissioners responsible and public authorities at all levels. Coordinating the Commission's work on the Investment Plan for Europe would be a particularly important task.¹⁴ In that function, the Minister would also be in charge of the Commission's relations with the European Investment Bank.

¹¹ The board is an independent advisory body to the Commission on fiscal matters with the purpose of achieving a more informed public debate and better coordination of national fiscal policies.

¹² See also Commission Reflection Paper on EU public finances, COM(2017) 358, 28 June 2017.

¹³ COM(2017) 822 of 6 December 2017.

¹⁴ The Investment Plan for Europe was launched by the Commission together with the European Investment Bank with a view to stimulating private investment in the EU economy and to tackling investment barriers, and significant first results have been achieved with EUR 251 billion of investments mobilised so far.

3. INSTITUTIONAL ASPECTS: DEMOCRATIC ACCOUNTABILITY AND LEGITIMACY

The new position of a European Minister of Economy and Finance can contribute to further streamlining the EU governance framework and strengthening the European dimension to economic policy making. As a matter of fact, the envisaged “double-hatting” – member of the Commission and President of the Eurogroup – is already possible within the current Treaties. Article 2 of Protocol No 14 on the Eurogroup, annexed to the Treaties, mentions that “*the Ministers of the Member States whose currency is the euro shall elect a president for two and a half years, by a majority of those Member States.*”¹⁵ The Minister would not create a new supranational bureaucratic layer, nor would the Minister impinge on national competences. By combining existing functions and available expertise at EU level, the Minister would help create synergies and thus contribute to a more efficient governance framework.

The Minister as Vice-President of the Commission

Given the Commission’s institutional role as promoter of the general interest, a Vice-President of the Commission could take over the role as European Minister of Economy and Finance. This would allow for the creation of a visibly mandated and unified representative of the economic and fiscal interests of the whole EU and the euro area, which also serves as a key point of reference inside and outside the Commission.

The Minister could steer and coordinate the work of several policy portfolios and services across the Commission. He/she would represent the Commission in the meetings of the European Central Bank’s Governing Council, without the right to vote, as it is foreseen in Article 284(1) of the Treaty on the Functioning of the European Union. He/she would also be responsible for EU-level social dialogue and interaction with key stakeholders.

The Minister as Chair of the Eurogroup

The European Minister of Economy and Finance could be elected as President of the Eurogroup, with a view to taking into account the interests of the euro area as a whole. The Eurogroup has until now been chaired by a finance minister of a euro area Member State. As President of the Eurogroup, the Minister would present and seek consensus on the broad policy direction and the overall strategy for the euro area, by helping to balance and align the points of views of national ministers with the shared

¹⁵ Eurogroup ministers would only need to change their working methods, which are agreed informally, by simple majority. These working methods currently foresee that candidates for the office of President must hold the position of national minister of finance.

priorities pursued at euro area and EU level. The Minister would also ensure the coherent preparation of Euro Summit meetings.

The role of the Eurogroup and its President over time

The Eurogroup is an informal body where the finance ministers of the euro area Member States discuss matters under their shared responsibilities related to the euro. Its main task is to ensure close coordination of economic policies among euro area Member States, in full respect of the powers attributed to the Council under Article 121 TFEU.

The European Council endorsed the creation of the Eurogroup on 13 December 1997.¹⁶ In a resolution on economic policy coordination, the Council concluded that “the Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency.” The Eurogroup held its first meeting on 4 June 1998. In its early years, the Eurogroup was chaired by the rotating Council Presidency, except where the Council Presidency was held by a non-euro area Member State, in which case the chair was held by the next euro area country that would hold the Council Presidency.

On 10 September 2004, the Eurogroup decided to have a permanent President, appointed for a period of two years. At an informal ECOFIN meeting in Scheveningen, in the Netherlands, Jean-Claude Juncker was elected as the first permanent President of the Eurogroup.

Protocol 14 on the Eurogroup entered into force with the Lisbon Treaty on 1 December 2009. It stipulates that Ministers of Member States whose currency is the euro shall meet informally to discuss matters related to the specific responsibilities they share with regard to the single currency and shall elect a President for two and a half years by a simple majority of votes.

Since October 2008, regular meetings of the euro area Heads of State or Government had taken place. At their meeting on 26 October 2011, Heads of State or Government agreed that a decision on whether the President of the Eurogroup is to be elected “among its members or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent.” It was also agreed that the Eurogroup Working Group would prepare Eurogroup meetings, drawing on the expertise provided by the Commission. It was furthermore clarified that the Eurogroup Working Group would be chaired by a full-time Brussels-based President elected, in

¹⁶ European Council, Presidency conclusions, Luxembourg, 12-13 December 1997.

*principle, at the same time as the chair of the Economic and Financial Committee, for a period of two years, which may be extended.*¹⁷

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.¹⁸

The European Minister would be supported in the preparation of Eurogroup meetings by the permanent Chairman of the Economic and Financial Committee/Eurogroup Working Group and a Secretariat building on all available expertise, making sure that no additional structures are created or duplicated.¹⁹

The Minister overseeing the work of the European Monetary Fund

The President of the Eurogroup currently chairs the Board of Governors of the European Stability Mechanism. The latter was put in place during the crisis on an intergovernmental basis as a way to provide support to those Member States facing financial distress. Building on the European Stability Mechanism, the Commission proposes today to integrate the European Monetary Fund into the Union legal framework.²⁰

As President of the Eurogroup, the Minister would then also chair the Board of Governors of the European Monetary Fund. In so doing, the Minister would exercise a neutral role, taking into account the interests of the shareholders of the European Monetary Fund in a balanced manner.

¹⁷ In May 2013, France and Germany also presented their joint paper “*Together for a stronger Europe of Stability and Growth*”. It proposed to strengthen the governance of the euro area “*after the next European elections. [...] This could include: [...] a full-time President for the Eurogroup*”.

¹⁸ The Commission participates in the work of the Eurogroup, as is foreseen in Protocol No 14 to the Treaties. Article 17(1) TEU lays down the mission of the Commission to promote the common interest of the Union, which it does in all its activities. It is thus Union primary law that makes it clear that there is no incompatibility between the tasks of a Member of the Commission and involvement in the work of the Eurogroup.

¹⁹ The work of the Eurogroup is prepared by the Eurogroup Working Group (EWG). The EWG and the Economic and Financial Committee (EFC) are chaired by a permanent chairperson since 2012. Hosted in the Council, the EFC/EWG Chair is assisted by a secretariat whose staff is mainly supplied by and based in the Commission. This organisation has allowed synergies and proven to be efficient. It could be further developed with the creation of the European Minister for Economy and Finance.

²⁰ COM(2017) 827 of 6 December 2017.

Accountability towards the European Parliament

The Commission is accountable towards the European Parliament. Members of the Commission also actively engage with the European Parliament on economic and fiscal matters, notably through the Economic Dialogues set out in the “Six-Pack” and “Two-Pack” legislation.²¹ The Eurogroup and the European Stability Mechanism engage with the European Parliament on a voluntary basis.

The Minister would be accountable towards the European Parliament on all issues related to its functions and would also be available for dialogues with national Parliaments. As a member of the College of Commissioners, the Minister would be subject to a hearing by the European Parliament. After a vote of consent, the Minister would be appointed as part of the Commission College. The Minister would continue to have regular dialogues with the European Parliament and with national Parliaments. Furthermore, in line with the existing process for examining the Draft Budgetary Plans of euro area Member States, national Parliaments could request the Minister to present the Commission opinion on the respective Draft Budgetary Plan to them.

4. CONCLUSIONS

The Commission considers that the position of a European Minister of Economy and Finance would be an important institutional step for a more coherent, effective and accountable economic governance of the European Union.

It calls on the European Parliament and the Council, as well as on the Member States, to reflect on the ideas expressed in this Communication, with a view to building a common understanding in the context of the discussion on the deepening of the Economic and Monetary Union foreseen in the Leader’s Agenda.

Within the existing Treaties, such a position could be created sequentially, according to the following timeline:

- The function of the Minister as Vice-President of the Commission could be established as part of the appointment of the next Commission as from November 2019.
- The Eurogroup could agree to elect the Minister as its President for two consecutive mandates, thus agreeing on an alignment of its mandate with the mandate of the Commission.
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²¹ Regulations (EU) n° 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013.

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, 06.12.2017

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Reasons for and objectives of the proposal

An unprecedented financial and economic crisis hit the economies of the European Union (EU) a decade ago. While that crisis did not start in the euro area, it laid bare some of its institutional weaknesses. In response, the EU has sought to strengthen the economic governance arrangements for the Union and the euro area, particularly by means of the legislative packages known as the ‘Six-pack’ (five Regulations and a Directive adopted in 2011) and ‘Two-pack’ (two Regulations adopted in 2013). These packages helped to ensure the closer supervision of national budgets, establish sounder fiscal frameworks and pay greater attention to debt levels.

However, in seeking to remedy the root causes of the crisis, it became clear that the rules-based fiscal framework at EU level had to be complemented by binding provisions at the national level to foster sound budgetary policies in all Member States and act as a lasting mechanism against the emergence of excessive deficits.

In that context, the use of Union law to underpin such national rules was explored. The Commission was at the time strongly in favour of pursuing further economic governance reforms under the Community method.¹ However, when meeting in December 2011, the European Council failed to agree to take the steps under consideration. In reaction, the Member States that wanted to commit jointly to having such domestic rules went ahead on an intergovernmental basis, leading to the conclusion of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) as a stepping stone towards incorporating its provisions as soon as possible into the Treaties.

¹ Statement by President Barroso at the press conference following the meeting of the Heads of State or Government of the euro area, 27 October 2011, SPEECH/11/713.

The TSCG was signed on 2 March 2012 by 25 Contracting Parties (all Member States except the Czech Republic and United Kingdom²) and entered into force on 1 January 2013. The cornerstone of the TSCG is its Title III, which sets out the so-called ‘Fiscal Compact’. Its main provision is the obligation for Contracting Parties to enshrine in binding and permanent national provisions, preferably constitutional, a balanced-budget rule in cyclically adjusted terms. The rule mirrors the requirement that is at the centre of the preventive arm of the Stability and Growth Pact (SGP), namely the medium-term budgetary objective. 22 Contracting Parties are bound by the Fiscal Compact (all euro area Member States and, on a voluntary basis, Bulgaria, Denmark and Romania). Other parts of the TSCG aim to reinforce economic policy coordination and governance of the euro area.

The intergovernmental approach used to adopt the TSCG was always understood by all stakeholders as a way to take necessary steps immediately when, at the height of the economic and financial crisis, progress was blocked within the European Council. Hence, the Contracting Parties agreed to seek integration of the core provisions of the TSCG into Union law at most within five years of the date of its entry into force, i.e. by 1 January 2018.

This political agreement is enshrined in Article 16 TSCG, according to which "*Within five years, at most, of the date of entry into force of this Treaty, on the basis of an assessment of the experience with its implementation, the necessary steps shall be taken, in accordance with the Treaty on the European Union and the Treaty on the Functioning of the European Union, with the aim of incorporating the substance of this Treaty into the legal framework of the European Union.*"

The Commission’s May 2017 Reflection Paper on the Deepening of the Economic and Monetary Union³ recalled that agreement and referred to the possible integration of the Fiscal Compact into the EU legal framework during the period 2017-2019. Furthermore, in his 2017 State of the Union address and the accompanying Letter of Intent,⁴ President Jean-Claude Juncker proposed, among other things, the integration of the substance of the TSCG into EU law, taking into account the appropriate flexibility built into the SGP and identified by the Commission since January 2015.

The European Parliament has also repeatedly asked for the substance of the TSCG to be brought under the Treaties,⁵ arguing that, to be effectively legitimate and democratic,

² Croatia was not a member of the European Union at the time of signature and has not signed up to the TSCG to date.

³ COM(2017) 291, 31 May 2017.

⁴ President Jean-Claude Juncker’s State of the Union Address 2017, SPEECH/17/3165, 13 September 2017.

⁵ European Parliament’s resolution of 12 December 2013 on constitutional problems of a multitier governance in the European Union (P7_TA(2013)0598) and resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges (P8_TA(2015)0238).

the governance of a genuine Economic and Monetary Union (EMU) must be placed within the institutional framework of the Union.

The Fiscal Compact was adopted as a stop-gap solution at a time of deep crisis, but its basic tenet remains entirely valid – it is in the interest of the EU and the euro area to foster responsible policies avoiding excessive deficits. The present proposal is part of a broader and ambitious set of initiatives to reform the EMU put forward by the Commission on 6 December 2017. Recognising the particular relevance for the completion of EMU, the proposal responds to the will expressed by the TSCG Contracting Parties, the calls of the European Parliament for integration into the Union framework and the call for unity, efficiency and democratic accountability made by President Juncker in his State of the Union address in September 2017.

The proposed Directive strengthens fiscal responsibility and the medium-term budgetary orientation in the Member States and so aims to achieve, along with the existing provisions of the SGP, the underlying objective of the Fiscal Compact, namely, convergence to prudent levels of public debt. Indeed, the high levels of public debt still observable today will take time to be absorbed. Further progress therefore remains imperative, in both the short and long term.

Progress toward prudent debt levels requires annual budgetary decisions to follow a steady orientation towards achieving and maintaining the medium-term budgetary objective. The budgetary path needs to be spelled out in terms of policies under the control of governments and taking into account economic conditions. However, frequent recalibrations of the path undermine the credibility and effectiveness of any strategy for debt reduction. Partly due to the exceptional economic circumstances prevailing when the Fiscal Compact entered into force, such a steady medium-term orientation of budgetary policies has not yet fully materialised. As economic conditions are normalising, the time has come to operationalise and reinforce it so that all Member States effectively converge to the agreed objectives.

As also advocated in the EMU Reflection Paper, the EMU and its completion must remain open to all Member States. What is conceived for the euro area should also be conceived for – and with – those Member States that are expected to join the euro in the foreseeable future. This is key for a well-functioning single currency. Accordingly, the proposed Directive should apply to both the Member States whose currency is the euro and other Member States wishing to participate.

Article 3 (which forms part of the Fiscal Compact) is by far the most substantive provision of the TSCG from an EMU perspective as it aims to respond to the need to maintain sound and sustainable public finances and to prevent government deficit and debt becoming excessive. Under Article 3(1), Contracting Parties commit to have their budgetary position in balance or in surplus, with a lower limit for the structural deficit

of 0.5% of GDP, which can become 1.0% of GDP for Member States with a debt level significantly below 60% of GDP and with low risks for the long-term sustainability of public finances. That balanced-budget rule must be equipped with a correction mechanism automatically triggered in case of significant deviation. Article 3(2) obliges Contracting Parties to internalise those rules into their domestic legal order. Other provisions of the TSCG have either been already integrated into EU law (in particular via the ‘Two-pack’, for the euro area), or would require changes to the Treaties, or do not lend themselves to incorporation for various reasons (e.g. some replicate existing EU law). Consequently, the ‘substance’ proposed for incorporation into the Union legal framework is concentrated in Article 3 TSCG.

The rationale for bringing that ‘substance’ of the TSCG into the body of the EU fiscal framework is manifold. It would simplify the legal framework and ensure more effective and systematic monitoring of implementation and enforcement of fiscal rules at both EU and national level as part of the overall EU economic governance framework, compared to the current intergovernmental set-up. It diminishes the possible risks of duplications and conflicting actions inherent in the co-existence of intergovernmental arrangements alongside the mechanisms foreseen by Union law. A consolidated framework governed by EU law would also facilitate a consistent and coordinated evolution of the EU and national fiscal rules within the wider process of deepening the EMU. Above all, as argued in the Five Presidents’ Report on Completing Europe’s Economic and Monetary Union,⁶ the integration into the Union legal framework of all inter-governmental instruments created during the crisis would bring greater democratic accountability and legitimacy across the Union.

The proposed Directive builds on the observation that there cannot be an effective enforcement of the EU fiscal framework if only a top-down approach is taken. The particular decentralised nature of fiscal policy-making in the EU and the general need for national ownership of fiscal rules make it essential that the objectives of the EMU budgetary coordination framework are also reflected in the fiscal frameworks of the Member States. While Council Directive (EU) No 2011/85⁷ already set minimum characteristics for national fiscal frameworks, in the TSCG Contracting Parties strengthened the basis for responsible fiscal policies amongst them by setting out the obligation to enshrine a balanced-budget requirement through “*[national] provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes*”.

⁶ 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.

⁷ Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41). Council Directive (EU) No 2011/85 is part of the ‘Six-pack’.

In the same vein, the present proposal lays down an obligation for Member States to have in place a framework of binding and permanent numerical fiscal rules which, while being consistent with the fiscal rules laid down in the Union framework, can embody specificities relevant to the Member State concerned. That framework should strengthen their responsible conduct of fiscal policy and promote compliance with the budgetary obligations deriving from the Treaty on the Functioning of the European Union (TFEU). It should ensure convergence of public debt to prudent levels (namely, the reference value set out in Protocol No 12 on the excessive deficit procedure annexed to the Treaties), in particular by means of an anchoring medium-term objective in terms of structural balance that is binding on national budgetary authorities in their annual decisions. That objective-based approach reflects a shared goal, to ensure the sustainability of public finances, common to national budgetary rules and mechanisms and to the EU fiscal framework. The medium-term orientation seeks to provide a stronger basis for sound budgetary policies since most fiscal measures have budgetary implications that go well beyond the annual budgetary cycle. In the same vein, the implementation of major structural reforms with a verifiable positive impact on the long-term sustainability of public finances should be properly factored into the medium-term fiscal perspective.

If there is to be medium-term anchoring for budgeting purposes, fiscal planning must include a medium-term path for expenditure net of discretionary revenue measures and consistent with the medium-term objective or the adjustment path towards it. To ensure an enhanced sense of national ownership of fiscal policy and reflect Member States' sovereign specificities, that path should be set for the whole term of the legislature as established by the domestic constitutional legal order, as soon as a new government takes office. Crucially, that path should be respected by the annual budgets throughout the period that it covers.

Effective means to correct non-compliance are needed for the credibility of the medium-term objective and of the associated operational target. While it is the case that exceptional circumstances may lead to a temporary deviation from the medium-term objective or the adjustment path towards it, significant observed deviations must be corrected through the automatic activation of a pre-defined correction mechanism, in particular by compensating for deviations from the medium-term expenditure path.

Long-term sound budgetary policies are jeopardised by the deficit bias and more generally the pro-cyclical policy stance which can be observed across Member States. Fiscal rules and independent fiscal institutions have emerged as complementary devices to address those challenges. Evidence shows that fiscal rules equipped with independent monitoring arrangements are associated with increased transparency, better fiscal outcomes and lower sovereign debt financing costs. For that reason, the proposed Directive foresees involving independent fiscal institutions in monitoring compliance with the framework of numerical fiscal rules, including by assessing the adequacy of the medium-term budgetary orientation, as well as in monitoring how the

correction mechanism is activated and applied. When they detect significant deviations from the medium-term objective or the adjustment path towards it, the independent fiscal institutions should call upon the national budgetary authorities to activate swiftly the correction mechanism and should assess the planned corrective measures and their implementation. Public assessments prepared by the independent fiscal institutions in the performance of their tasks, accompanied by a duty for the budgetary authorities of Member States to 'comply-or-justify' in relation to the recommendations of the independent fiscal institutions, would boost the reputational costs of non-compliance and therefore increase the credibility and enforceability of the medium-term orientation. Since the adoption of 'Six-pack', 'Two-pack' and the TSCG⁸ have already led to establishing independent fiscal institutions in almost all Member States, the proposed Directive is unlikely to require new structures although amendments to the current remits of existing independent fiscal institutions coupled with improved access to information and some reinforcement of resources may be warranted.

Detailed provisions in the proposed Directive set out specific aspects of the correction mechanism and the necessary features related to the set-up of independent fiscal institutions and their specific tasks stemming from this proposal. Those elements incorporate key features of the Common principles on national fiscal correction mechanisms,⁹ which were used by the Member States in their adoption of measures in compliance with Article 3(2) of the TSCG.

The proposed Directive does not affect the commitments made in Article 7 of the TSCG by those of the Contracting Parties whose currency is the euro to coordinate their views prior to the voting within the Council on proposals and recommendations made by the Commission in the context of the excessive deficit procedure. Equally, it preserves the practice under Article 13 of the TSCG of discussions in the framework of inter-parliamentary meetings held by the European Parliament and the national Parliaments of the Contracting Parties. Such discussions contribute to enhancing democratic accountability in the context of the Union's economic governance.

- Consistency with existing policy provisions in the EU

The key instrument for fiscal policy co-ordination and surveillance in the EU and the euro area is the SGP, which implements the Treaty provisions on budgetary discipline. The Fiscal Compact corresponds in many aspects to the preventive arm of the SGP.

⁸ The TSCG invited the Commission to report on the measures adopted by the Contracting Parties bound by the Fiscal Compact to report on the measures adopted by each of them in relation to Article 3(2) TSCG; to that effect, the Commission adopted on 22 February 2017 a Communication and a report assessing the compliance of the relevant national measures (C(2017) 1201 final). It provides details on the independent fiscal institutions in the TSCG Contracting Parties.

⁹ See also Communication from the Commission: Common principles on national fiscal correction mechanisms (COM(2012) 342 final).

Indeed, the balanced-budget rule in structural terms mirrors to a very large extent the medium-term budgetary objective established under Article 2a of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.¹⁰

The proposed Directive puts forward a framework of numerical fiscal rules and accompanying specifications which is not only compatible with the SGP but is specifically meant to complement it. That framework must effectively promote compliance with the Member State's obligations deriving from the TFEU in the area of budgetary policy, meaning, among others, that the medium-term objective envisaged to play within the national budgetary processes the role of an anchor for ensuring sustainable debt levels must be consistent with the medium-term budgetary objective laid down under Article 2a of Council Regulation (EC) No 1466/97. To take into account the appropriate flexibility that is built into the rules of the SGP and in line with its procedural requirements, the proposal includes specific provisions allowing account to be taken of the implementation by Member States of structural reforms that have a positive impact on the long-term sustainability of public finances.

2. RESULTS OF CONSULTATIONS WITH INTERESTED PARTIES

Article 16 of the TSCG and its supporting recital express the firm, unambiguous will of the Contracting Parties to incorporate as soon as possible the substance of that Treaty into the Union legal framework.

The Commission has followed up on that commitment of the 25 Member States who are Contracting Parties by putting forward this proposal. The Commission first announced its intention to take the initiative and act upon that commitment in the Reflection Paper on the Deepening of the Economic and Monetary Union, which recalled the agreement among the Contracting Parties to integrate the substance of the TSCG into Union law. In his 2017 State of the Union address and the accompanying Letter of Intent, President Juncker announced a proposal on incorporation as part of the 6 December 2017 package on EMU deepening.

The proposed Directive builds on the Commission's in-depth knowledge of the architecture of the Fiscal Compact (including in particular its interactions with the Union fiscal framework) and of how it has been enshrined by the Member States concerned into their domestic legal orders. With a view to preparing its February 2017 report assessing the compliance of national provisions adopted by the Contracting Parties bound by the Fiscal Compact, the Commission engaged in extensive

¹⁰ Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

consultations with those Member States. Those bilateral exchanges gave the Commission a thorough and accurate understanding of how the legislative and institutional arrangements put in place by them give effect to the rules enshrined in Article 3 of the TSCG.

Discussions held among the Member States in the ECOFIN Council and its preparatory committees in relation to the Fiscal Compact, notably on assessing the compliance of national transposing provisions, also included the issue of incorporating the Fiscal Compact in Union law and recalled the need to take steps in that direction by 1 January 2018.

3. LEGAL ELEMENTS OF THE PROPOSAL

- Legal basis

The legal basis for the proposed Directive is the second subparagraph of Article 126(14) TFEU. Strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States aims to complement and reinforce the available policy framework to avoid excessive deficits as established under Article 126 TFEU. While the proposed Directive does not alter the substantive and procedural rules set out in the SGP, it increases the effectiveness of those provisions. The proposal applies to all euro area Member States and includes ‘opt-in’ provisions for non-euro area Member States.

- Subsidiarity and proportionality

The proposal is in conformity with the subsidiarity and proportionality principles set out in Article 5 of the Treaty on the European Union. Its objective cannot be sufficiently achieved by the Member States and can be better achieved at Union level. The proposed Directive does not go beyond what is necessary in order to achieve that objective.

2017/0335 (CNS)

PROPOSAL FOR A COUNCIL DIRECTIVE

laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the second subparagraph of Article 126(14) thereof,

Having regard to the proposal from the European Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the European Central Bank,

Acting in accordance with a special legislative procedure,

Whereas:

- (1) The Treaty on the Functioning of the European Union (TFEU) requires that Member States regard their economic policies as a matter of common concern, that their budgetary policies are guided by the need for sound public finances and that their economic policies do not risk jeopardising the proper functioning of economic and monetary union.
- (2) The Stability and Growth Pact (SGP) includes the multilateral surveillance system and the surveillance and coordination of economic policies laid down in Council Regulation (EC) No 1466/97¹¹ and the procedure for the avoidance of excessive government deficit laid down in Article 126 TFEU and further specified in Council Regulation (EC) No 1467/97.¹² The SGP has been further strengthened by Regulation (EU) No 1175/2011 of the European Parliament and

¹¹ Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1).

¹² Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

of the Council¹³ and Council Regulation (EU) No 1177/2011.¹⁴ Regulation (EU) No 1173/2011 of the European Parliament and of the Council¹⁵ added a system of effective, preventive and gradual enforcement mechanisms in the form of the imposition of sanctions on Member States whose currency is the euro.

- (3) In order to encourage Member States' compliance with obligations under the TFEU in the area of budgetary policy, detailed rules concerning the characteristics of the budgetary frameworks of the Member States were laid down in the Council Directive 2011/85/EU.¹⁶
- (4) Since there is greater interdependence among the Member States whose currency is the euro and hence susceptibility to spill-over effects from each other's budgetary policies, in order to further enhance economic integration, convergence and coordination among them, a number of improvements to budgetary coordination and surveillance were introduced through Regulation (EU) No 472/2013 of the European Parliament and of the Council¹⁷ and Regulation (EU) No 473/2013 of the European Parliament and of the Council.¹⁸
- (5) With the aim of strengthening the foundations which ensure budgetary discipline throughout the economic cycle, on 2 March 2012 25 Member States signed and ratified the inter-governmental Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union. Title III of the TSCG, the "Fiscal Compact", is binding on the Member States whose currency is the euro and, on a voluntary basis, on Bulgaria, Denmark and Romania (hereinafter the 'Contracting Parties'), and sets an obligation to enshrine in the national legal order of those Contracting Parties a balanced-budget rule in structural terms equipped with a correction mechanism automatically triggered in case of significant deviation and monitored by independent institutions. The Contracting Parties expressed their will to use that inter-governmental

¹³ Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, p. 12).

¹⁴ Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33).

¹⁵ Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, p. 1).

¹⁶ Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

¹⁷ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

¹⁸ Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

instrument as a temporary device. That will be reflected in Article 16 of the TSCG which stipulates that, within five years at most following its entry into force, the necessary steps are to be taken with the aim of incorporating its substance into the Union legal framework. Therefore, provisions that allow the substance of the TSCG to take effect should be introduced in the Union's legal framework

- (6) In order to maintain sound and sustainable public finances and to avoid excessive government deficits as required by the TFEU, while at the same time improving the resilience of the euro area as a whole, there should be specific provisions in the national law of the Member States whose currency is the euro to strengthen their fiscal responsibility and their medium-term budgetary orientation beyond the provisions of Directive 2011/85/EU.
- (7) Since the economic and financial crisis has left a number of Member States with a legacy of high public debt, a framework of numerical fiscal rules specific to each Member State and which aim at strengthening its responsible conduct of fiscal policy while effectively promoting compliance with the budgetary obligations deriving from the TFEU is instrumental in ensuring convergence of public debt to prudent levels. Such a framework should operate in particular by setting a medium-term objective in terms of structural balance that is binding on the national budgetary authorities and their annual decisions. Medium-term objectives for the budgetary position allow the different public-debt-to-GDP ratios and sustainability risks of Member States to be taken into account, anchoring debt developments towards the reference value set out in Article 1 of Protocol No 12 on the excessive deficit procedure annexed to the Treaty on European Union and to the TFEU.
- (8) In order to achieve and maintain the medium-term objective in structural terms, it is necessary for Member States to set out a consistent adjustment path, based on variables under the control of the budgetary authorities. National fiscal planning underpinned by a government expenditure path adjusted for the impact of discretionary revenue measures favours effectiveness, transparency and accountability when monitoring fiscal developments. In order to tightly connect plans with the overall fiscal outcomes in the medium-term and to ensure an enhanced sense of national ownership of fiscal policy, a medium-term growth path of government expenditure net of discretionary revenue measures should be set for the whole term of the legislature as established by the constitutional legal order of each Member State. That path should be set as soon as a new government takes office and annual budgets should adhere to it so as to bring about resolute convergence towards the medium-term objective.
- (9) Due to their future positive effects, the implementation of major structural reforms fostering long-run sustainability could justify changes in the adjustment

path towards the medium-term objective, provided that they have a verifiable positive budgetary impact which is confirmed by the assessment conducted according to the procedural requirements of the SGP. In order to facilitate economic stabilisation, exceptional circumstances – in the form of severe economic downturns for the euro area or the Union as a whole or unusual events outside the control of the Member State concerned which have a major budgetary impact – should allow for a temporary deviation from the medium-term objective or the adjustment path towards it, where such a deviation does not endanger fiscal sustainability in the medium-term.

- (10) If they are not adequately addressed, significant deviations from the medium-term objective or the adjustment path towards it hamper the credibility of the budgetary plans and risk derailing government debt developments. To enhance the credibility of the Member States' commitment to the medium-term objective, a correction mechanism should be automatically activated in the event of a significant observed deviation. A credible correction mechanism should set out the measures which need to be implemented to correct the deviation over a defined period of time, taking account of the nature and size of the deviation. In particular, the correction mechanism should compensate for deviations from the medium-term growth path of government expenditure net of discretionary revenue measures.
- (11) Independent bodies charged with monitoring public finances in the Member States are an essential building block of effective fiscal frameworks. In order to foster fiscal discipline and strengthen the credibility of fiscal policy, such bodies should carry out independent assessments of the framework of numerical fiscal rules, including notably the medium-term budgetary orientation, and should monitor compliance with that framework and the activation and operation of the associated correction mechanisms.
- (12) Strengthened national fiscal responsibility and a binding multi-annual orientation of fiscal policy requires fiscal institutions to be independent and have their own resources for actively monitoring fiscal developments and providing recommendations throughout the medium-term budgetary cycle, including in particular where a significant deviation from the medium-term objective or the adjustment path towards it is observed. In order to boost the credibility and enforceability of the medium-term objective, its underlying government expenditure path and the related correction mechanism in case of significant deviations, the budgetary authorities of the Member States should comply with the recommendations put forward in the assessments of the independent bodies or publicly justify the decision not to comply with them. Anchoring that principle in the national legal order can play a crucial role in that respect.

- (13) For greater efficacy of the shared goal of the national budgetary rules and mechanisms and the Union's fiscal framework, namely the convergence of public debt to prudent levels, Member States should give effect to the rules provided for in this Directive through provisions of binding force and permanent character, of constitutional nature or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes.
- (14) The European Council on 19 October 2012 concluded that the process towards deeper economic and monetary union should build on the Union institutional and legal framework and be characterised by openness and transparency towards Member States whose currency is not the euro. National measures to strengthen fiscal responsibility in those Member States would facilitate their adoption of the euro and therefore the mechanisms established by this Directive should be open to all Member States wishing to participate. Therefore, provision should be made for this Directive to be applicable to Member States whose currency is not the euro where those Member States so decide.
- (15) It should be noted that Article 7 of the TSCG lays down that the Contracting Parties whose currency is the euro have committed to supporting the proposals or recommendations submitted by the Commission where it considers that a Member State whose currency is the euro is in breach of the deficit criterion in the framework of an excessive deficit procedure unless a qualified majority of them, calculated by analogy with the relevant provisions of the Treaties on which the Union is founded, without taking into account the position of the Contracting Party concerned, is opposed to the decision proposed or recommended.
- (16) While the incorporation of the substance of the TSCG into the Union legal order as it currently stands does not extend to the alteration of arrangements laid down by the provisions of the TFEU for decision-making, this Directive should leave unaffected the commitments established between the Contracting Parties pursuant to Article 7 of the TSCG.
- (17) Article 13 of the TSCG lays down that budgetary policies and other issues covered by that Treaty will be discussed in the framework of inter-parliamentary meetings held by the European Parliament and the national Parliaments of the Contracting Parties under Title II of Protocol No 1 on the role of national Parliaments in the European Union attached to the Treaties. This Directive should apply without prejudice to that practice, since such dialogue contributes to enhancing democratic accountability in the context of the Union's economic governance.

- (18) This Directive should strengthen the effectiveness of the SGP by increasing the extent to which it is embedded in the legal orders of the Member States while at the same time diminishing the possible risks of duplications and conflicting actions inherent in the co-existence of intergovernmental arrangements alongside the mechanisms foreseen by Union law. The substantive and procedural rules set out in the SGP should not be affected by this Directive.
- (19) In accordance with the Joint Political Declaration of 28 September 2011 of Member States and the Commission on explanatory documents,¹⁹ Member States have undertaken to accompany, in justified cases, the notification of their transposition measures with one or more documents explaining the relationship between the components of a directive and the corresponding parts of national transposition instruments. With regard to this Directive, the legislator considers the transmission of such documents to be justified.
- (20) Since the objective of the action to be taken, namely to strengthen fiscal responsibility by adopting a more binding medium-term budgetary orientation at national level, cannot be sufficiently achieved by the Member States and can be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective,

HAS ADOPTED THIS DIRECTIVE:

Article 1

Subject matter and scope

1. This Directive lays down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States to ensure compliance with obligations relating to the avoidance of excessive government deficits.
2. This Directive applies to the Member States whose currency is the euro and other Member States in accordance with Article 4.

¹⁹ OJ C 369, 17.12.2011, p. 14.

Article 2

Definitions

For the purposes of this Directive, the definitions of 'government', 'deficit' and 'debt' set out in Article 2 of Protocol No 12 on the excessive deficit procedure annexed to the TEU and to the TFEU shall apply.

In addition, the following definitions shall also apply:

- a) 'exceptional circumstances' means an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government, or a severe economic downturn for the euro area or the Union as a whole;
- b) 'independent bodies' means bodies that are structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability.
- c) 'structural balance' means the cyclically-adjusted balance of the general government, net of one-off and temporary measures.

Article 3

Fiscal responsibility and medium-term budgetary orientation

1. Each Member State shall set up a framework of binding and permanent numerical fiscal rules which are specific to it, strengthen its responsible conduct of fiscal policy and effectively promote compliance with its obligations deriving from the TFEU in the area of budgetary policy over a multiannual horizon for the general government as a whole. That framework shall include in particular the following rules:
 - (a) a medium-term objective in terms of structural balance shall be set in order to ensure that the ratio of government debt to gross domestic product at market prices does not exceed the reference value set out in Article 1 of Protocol No 12 on the excessive deficit procedure or approaches it at a satisfactory pace.
 - (b) fiscal planning shall include a medium-term growth path of government expenditure net of discretionary revenue measures and consistent with the medium-term objective or the time-frame for convergence towards it. That path shall be set as soon as a new government takes office in the

Member State, for the term of the legislature as established by the constitutional legal order of that Member State, and shall be respected by the annual budgets throughout that period.

2. The framework referred to in paragraph 1 shall include the following specifications:
 - (a) annual budgets shall ensure compliance with the medium-term objective referred to in point (a) of paragraph 1 or convergence towards it, specifically by ensuring adherence to the government expenditure path referred to in point (b) of that paragraph. When defining the adjustment path towards the medium-term objective and acting in line with the procedural requirements of the Union framework, Member States may take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by increasing potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances.
 - (b) a correction mechanism shall be automatically activated in the event of a significant observed deviation from the medium-term objective or the adjustment path towards it. That mechanism shall include the obligation to implement measures to correct the deviation over a defined period of time and taking account of the nature and size of the deviation, in particular by compensating for deviations from the government expenditure path referred to in point (b) of paragraph 1.
3. Member States shall ensure that a temporary deviation from the medium-term objective or the adjustment path towards it, with the corresponding adjustment of the government expenditure path referred to in point (b) of paragraph 1, is allowed only in case of exceptional circumstances and provided that any such deviation does not endanger fiscal sustainability in the medium-term. A temporary deviation resulting from exceptional circumstances shall not be deemed significant for the purposes of point (b) of paragraph 2 and shall not have the effect of activating the correction mechanism referred to in point (b) of that paragraph.
4. Member States shall designate independent bodies for monitoring compliance with the provisions in paragraphs 1 and 2. The independent bodies shall provide public assessments to ascertain:
 - (a) adequacy of the medium-term objective under point (a) of paragraph 1 and of the government expenditure path referred to in point (b) of paragraph 1. That assessment shall take into account in particular the

plausibility of the underlying macroeconomic forecast, the degree of specification of the planned government expenditure and revenue and the potential direct long-term positive budgetary effects of major structural reforms;

- (b) compliance with the medium-term objective and the government expenditure path, including the existence of a serious risk of occurrence of a significant deviation from the medium-term objective or the adjustment path towards it;
- (c) occurrence or cessation of any exceptional circumstances as referred to under paragraph 3.

5. Member States shall ensure that, in the event of a significant observed deviation as referred to in point (b) of paragraph 2, the independent bodies shall call upon the budgetary authorities to activate the correction mechanism. After the correction mechanism is activated, the independent bodies shall provide public assessments to ascertain:

- (a) consistency of the planned measures with the established correction mechanism, having regard in particular to whether deviations from the government expenditure path set in accordance with point (b) of paragraph 1 are adequately compensated for;
- (b) the progress of the correction over the defined time-frame;
- (c) occurrence or cessation of any exceptional circumstances which may allow a temporary deviation from the correction path.

6. Member States shall ensure that the budgetary authorities of the Member State concerned comply with the recommendations of the independent bodies made in the assessments required under paragraphs 4 and 5 or publicly justify the decision not to comply with those recommendations.

7. Member States shall ensure that the independent bodies referred to in paragraph 4:

- (a) are established by a statutory regime grounded in national laws, regulations or binding administrative provisions;
- (b) do not take instructions from the budgetary authorities of the Member State concerned or from any other public or private body;
- (c) have the capacity to communicate publicly in a timely manner;

- (d) are made up of members who are nominated and appointed on the basis of their experience and competence in public finances, macroeconomics and budgetary management, and by means of transparent procedures;
- (e) have adequate and stable own resources to carry out their mandate in an effective manner;
- (f) have extensive and timely access to information to fulfil their given tasks.

Article 4

Participation by Member States whose currency is not the euro

1. Any Member State whose currency is not the euro shall be bound by this Directive provided that it notifies the Commission of its decision to that effect. That notification shall include the date as of which the Member State concerned requests to be bound by this Directive.
2. The notification referred to in paragraph 1 shall be published by the Commission in the *Official Journal of the European Union*. It shall take effect as from the date notified thereof by the Member State concerned or the date of adopting the euro as the single currency of that Member State, whichever is the earlier.

Article 5

Reports

By 30 June 2024, and every five years thereafter, the Commission shall present a report to the European Parliament and to the Council on the implementation of this Directive, which shall be prepared on the basis of relevant information from the Member States.

Article 6

Final provisions

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 30 June 2019. They shall immediately inform the Commission thereof.

2. When Member States adopt those measures, they shall contain a reference to this Directive or be accompanied by such reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.
3. Member States shall communicate to the Commission the text of the main measures of national law which they adopt in the field covered by this Directive.

Article 7

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 8

Addressees

This Directive is addressed to the Member States in accordance with the Treaties.

Done at Brussels,

For the Council

The President

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Amending Regulation (EU) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective

COM(2017) 825 final, 06.12.2017

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Reasons for and objectives of the proposal**

The Structural Reform Support Programme for the period 2017 to 2020 has been running since 20 May 2017 with a budget of EUR 142.8 million.¹ It was established with the objective of strengthening the capacity of Member States to prepare and implement growth-sustaining administrative and structural reforms, including through the use of assistance for the efficient and effective use of the Union funds. Support under the Programme is provided by the Commission, upon request by a Member State, and can cover a wide range of policy areas.

Since the Structural Reform Support Programme Regulation entered into force, there has been a very high take-up of the programme by Member States, with requests for support significantly exceeding the amount of funding available for its annual cycles. This is borne out by data for the 2017 cycle where, despite the late adoption of the Structural Reform Support Programme Regulation, 271 requests for support were submitted by 16 Member States for an estimated amount of over EUR 80 million in total, compared with an allocation of EUR 22.5 million for 2017. This led to a strong prioritisation effort by the Commission, resulting in several requests not being selected for funding. The situation is even more acute for the 2018 cycle, which has just been launched (the deadline for submitting requests was 31 October 2017). 444 requests for support were submitted by 24 Member States and the total estimated cost of such requests is approximately EUR 152 million, compared with the allocation for 2018 of EUR 30.5 million. This demonstrates clearly that the support needs on the ground and the interest for support from Member States goes well beyond the currently available financial resources of the Programme.

¹ Regulation (EU) No 2017/825 of the European Parliament and of the Council of 17 May 2017 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (OJ L129 19.05.2017, p. 1).

The experience to date has shown that many Member States have requested support under the Programme, and that requests for support are distributed across all support policy areas covered by the Programme, such as governance and public administration, revenue administration and public financial management, growth and business environment, labour market, education, health and social services, the financial sector and access to finance.

As indicated by President Juncker in his Address (and annexed Letter of Intent) to the European Parliament on 13 September 2017 on the State of the Union,² the euro is meant to be the single currency of the Union as a whole and, therefore, ultimately all but two Member States are required and entitled to join the euro area. There is thus a clear need to think ahead and support non-euro area Member States in preparing for their euro accession when they so desire. In order to be able to join the euro area, Member States must meet the “Maastricht” or “convergence criteria”, which indicate that they have achieved a *high degree of sustainable convergence*.

The economic and financial crisis has demonstrated that, beyond nominal convergence, achieving real convergence and having resilient economies built on robust economic structures, which allow Member States to efficiently absorb shocks and swiftly recover from them, are crucial for ensuring successful participation in the euro area. This requires, in particular, that Member States have the capacity to manage their budgets in accordance with the principles of sound public financial management and are institutionally ready to participate in the Banking Union. Beyond this, properly functioning labour and product markets, which are able to absorb external shocks, a high degree of integration in terms of trade in goods and services, and a well-functioning public administration are of prime importance for successful integration into the euro area.

Against the background of (i) the higher financing needs for the provision of support for the implementation of structural reforms, and (ii) the need to support Member States that intend to adopt the euro in accelerating the process of real convergence and developing more resilient economic and social structures to ensure their smooth participation in the Economic and Monetary Union, the Commission is committed, as a first step, to reinforcing the budget of the Structural Reform Support Programme by EUR 80 million for the period 2019-2020. This should be achieved by using the Flexibility Instrument under Article 11 of the current Multiannual Financial Framework.³ This would bring the overall financial envelope of the Structural Reform Support Programme to EUR 222.8 million. The increase would not only allow the demand for support stemming from the non-euro area Member States, which want to adopt the euro and need to implement reforms in their economies, to be satisfied, but would also allow for the increased number and cost of requests for support for the implementation of administrative and structural reforms to be catered for.

This additional budget would be supplemented by inviting Member States to make use of the possibility, under Article 11 of the Structural Reform Support Programme Regulation, of transferring part of their resources from the technical assistance component of the

² President Jean-Claude Juncker’s State of the Union Address 2017, 13 September 2017.

³ Cf. Article 11 of Council Regulation (EU, EURATOM) No 1311/2013.

European Structural and Investment Funds to the Structural Reform Support Programme, for the purpose of provision of support for the implementation of reforms, including reforms linked to euro adoption. Based on current estimates of possible needs for support, this supplement would increase the total amount of the budget available for support to EUR 300 million, thus doubling the support capacity by 2020.

The support would offer tailor-made assistance for the implementation of all policies that help the Member States achieve a high degree of sustainable convergence. The support will be offered notably in the areas of the business environment, the financial sector, labour and product markets, the public administration and public financial management. The most important reforms needed to foster sustainable real convergence will be highlighted in the context of the European Semester.

In a dedicated work stream, those Member States wishing to make progress towards joining the euro area would agree, in dialogue with the Commission, on a limited set of reform commitments that are of particular importance for successful euro area membership.

These reform commitments would also be reflected in the National Reform Programmes of the Member States concerned. The Commission through the Structural Reform Support Service would conclude a new Cooperation and Support Plan with the Member States concerned, focussing on providing technical support for the implementation of reform commitments linked to euro adoption. This arrangement would be fully voluntary and would be offered without any co-financing from the beneficiary Member States.

Consistency with existing policy provisions in the policy area

The Structural Reform Support Programme is an innovative Union programme, whereby the Commission provides support to Member States, upon their request, for the design and implementation of administrative and structural reforms. The Structural Reform Support Programme focuses on the provision of tailor-made assistance and expertise on the ground to accompany the national authorities of the requesting Member States throughout the reform process or in defined stages or different phases of this process. This is based on the most pressing country needs, as mutually agreed between the Commission and the Member State concerned in a Cooperation and Support Plan.

The Structural Reform Support Programme is complementary to existing resources for capacity building and technical assistance, which are available within other Union financing programmes under the Multiannual Financial Framework, and with technical assistance and other actions financed by Union funds. This is ensured at both the programming and implementation stages. To this effect, the Commission has set up a technical support coordination mechanism involving the services concerned, so as to ensure that the support provided under the various Union programmes and funds is consistent and avoids duplication with the measures under the Structural Reform Support Programme.

This proposal aims to increase the financial allocation of the Structural Reform Support Programme in order to allow the Commission to cater for the needs, in particular, of non-euro area Member States, which embark on structural reforms aimed at making their economies more resilient to shocks and better preparing them for euro area membership, as

well as for the needs stemming from the increased number and cost of requests for support from all Member States in relation to the implementation of structural reforms.

Consistency with other Union policies

The proposal is consistent with and contributes to major Union policy initiatives such as the European Semester and the proposals made in the Reflection Paper on the Deepening of the Economic and Monetary Union,⁴ and is in line with the 2017 State of the Union address (and annexed Letter of Intent) made by President Juncker to the European Parliament on 13 September 2017, in which an outline of the strengthening of the future Economic and Monetary Union was presented.

The proposal allows for more financial resources to be available for the provision of support for much needed reforms, which would make the economies of non-euro area Member States more resilient to shocks and would help these Member States to thrive once they join the euro area. In addition, the proposal allows for more resources to be available for supporting the implementation of structural reforms throughout the Union.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

Legal basis

The Structural Reform Support Programme is based on Articles 175(third paragraph) and 197(2) of the Treaty on the Functioning of the European Union.

This proposal sets out a legislative amendment in order to (i) indicate the contribution of the Programme to facilitating the participation in the euro area of Member States whose currency is not the euro, (ii) increase the dedicated financial envelope of the Programme (using the Flexibility Instrument of the current Multiannual Financial Framework), and (iii) adapt the general objective of the Structural Reform Support Programme in order to stress the link with the preparation for membership of the euro area. It also caters for some technical changes as regards the use of the support expenditure of the Programme. By virtue of its increased financial resources, the Structural Reform Support Programme can decisively contribute to building more resilient economic structures in the Member States and to achieving sustainable convergence in the non-euro area Member States preparing to join the euro area.

Subsidiarity (for non-exclusive competence)

The funding of the Programme's activities through the proposed amendment respects the principles of European added value and of subsidiarity. Increased funding from the Union budget is needed as regards the overall support for the implementation of structural reforms,

⁴ COM(2017) 291, 31 May 2017.

in view of the unexpectedly high take-up of the Programme by the Member States. It is also needed in view of the objective of supporting sustainable convergence in the non-euro area Member States, which is crucial for the prosperity of the Union and, in particular, for the smooth functioning of the single currency. Neither of these objectives (support for structural reforms in general and support for euro area membership) can be achieved to a sufficient degree by the Member States acting alone ('necessity test'), while the Union's intervention can bring additional value compared to actions of Member States on their own ('effectiveness test').

Indeed, the Union is in a better position than Member States to identify, mobilise and coordinate the best available expertise (be it from inside the European institutions' services, from other countries or from international organisations), and foster the exchange of good practices (as well as ensure their consistent dissemination across the Union) to assist non-euro area Member States along their path to join the single currency and to support the implementation of targeted growth-enhancing reforms in all the Member States.

Proportionality

The proposal complies with the proportionality principle in that it does not go beyond the minimum required in order to achieve the stated objective at European level and that which is necessary for that purpose.

Choice of the instrument

The proposal is an amendment to the Structural Reform Support Programme Regulation.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

The current amendment aims to respond to an urgent need to cater for the support to non-euro area Member States that embark on structural reforms aimed at making their economies more resilient to shocks, accelerating the process of real convergence and better preparing them for euro area membership. The amendment also aims to increase the overall financial envelope in order to satisfy the much higher than expected demand for support from Member States in relation to the implementation of structural reforms.

Regulatory fitness and simplification

The proposal is not linked to the regulatory fitness and simplification exercise and does not have any costs of compliance for small and medium-sized enterprises or any other stakeholders. The Structural Reform Support Programme will soon be implemented via an electronic platform (JIRA), which will be available for the Commission services and the Member States.

Fundamental rights

The proposal has a positive effect on the preservation and development of Union fundamental rights, assuming that the Member States request and receive technical support in related areas. For example, support in areas such as migration, labour markets and social insurance, healthcare, education, the environment, property, public administration and the judicial system can support Union fundamental rights such as dignity, freedom, equality, solidarity, citizens' rights and justice.

4. BUDGETARY IMPLICATIONS

It is proposed to increase the dedicated financial envelope for the Structural Reform Support Programme from EUR 142 800 000 (current prices) to EUR 222 800 000 (current prices). This increase would be in place for 2019 and 2020. The legislative financial statement provides the appropriate explanations.

This increase should be made possible by using EUR 80 000 000 from the Flexibility Instrument under the current Multiannual Financial Framework (Article 11 of Council Regulation 1311/2013), which allows for supplementing the financing available in the general budget of the Union for the financial years 2018 and 2019 beyond the ceiling of heading 1b (cohesion).

This increased budget will be supplemented by inviting Member States to make use of the possibility, under Article 11 of the Structural Reform Support Programme Regulation,

of transferring part of their resources from the technical assistance component of the European Structural and Investment Funds to the Structural Reform Support Programme, for the purpose of the provision of support for the implementation of reforms, including reforms linked to euro adoption. Based on current estimates of possible needs for support, this supplement would increase the total amount of the budget available for support to EUR 300 million.

5. OTHER ELEMENTS

Implementation plans and monitoring, evaluation and reporting arrangements

The monitoring, evaluation and reporting requirements are adequately foreseen in the Structural Reform Support Programme Regulation. No change to this effect is foreseen.

Explanatory documents (for directives)

N/A

Detailed explanation of the specific provisions of the proposal

The proposal amends Article 4 of the Structural Reform Support Programme Regulation (general objective) in order to add support for euro area membership to the goals for which the Programme provides contributions. Notably, the Programme provides support to national authorities for reforming institutions, governance, administration, economic and societal sectors in response to economic and social challenges. With the proposed amendment, it is emphasised that enhancing cohesion, competitiveness, productivity, sustainable growth and job creation should also contribute to preparations for participation in the euro area by those Member States whose currency is not the euro and that want to join the single currency.

The proposed Article 5a emphasises the contribution of the Programme in a dedicated work stream towards supporting reforms that may help Member States in their preparation to join the euro area.

The proposal amends paragraph 1 of Article 10 of the Structural Reform Support Programme Regulation, as regards the dedicated financial envelope of the Structural Reform Support Programme, in order to bring it to EUR 222.8 million in current prices.

The proposal amends paragraph 2 of Article 10 of the Structural Reform Support Programme Regulation, i.e. the provision on support expenditure of the Programme, by adding the possibility of financing supporting activities, such as quality control and monitoring of concrete support projects on the ground.

2017/0334 (COD)

**PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT
AND OF THE COUNCIL**

**amending Regulation (EU) 2017/825 to increase the financial envelope of the
Structural Reform Support Programme and adapt its general objective**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN
UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the third paragraph of Article 175 and Article 197(2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee¹,

Having regard to the opinion of the Committee of the Regions²,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Structural Reform Support Programme ('the Programme') was established with the objective of strengthening the capacity of Member States to prepare and implement growth-sustaining administrative and structural reforms, including through assistance for the efficient and effective use of the Union funds. Support under the Programme is provided by the Commission, upon request by a Member State, and can cover a wide range of policy areas. Developing resilient economies built on strong economic and social structures, which allow Member States to efficiently absorb shocks and

¹ OJ C [...], [...], p. [...].

² OJ C [...], [...], p. [...].

swiftly recover from them, contributes to economic and social cohesion. The implementation of institutional, administrative and growth-sustaining structural reforms is an appropriate tool for achieving such a development.

- (2) Member States have increasingly taken up support under the Programme, beyond the initial expectations. The requests for support received by the Commission during the 2017 cycle have, based on their estimated value, significantly exceeded the available annual allocation. During the 2018 cycle, the estimated value of requests received was five times the financial resources available for that year. Almost all Member States have requested support under the Programme and requests are distributed across all policy areas covered by the Programme.
- (3) Strengthening economic and social cohesion by reinforcing structural reforms is crucial for successful participation in the Economic and Monetary Union. That is particularly important for Member States whose currency is not the euro, in their preparation to join the euro area.
- (4) It is thus appropriate to stress in the general objective of the Programme – within its contribution towards responding to economic and social challenges – that enhancing cohesion, competitiveness, productivity, sustainable growth, and job creation should also contribute to the preparations for future participation in the euro area by those Member States whose currency is not the euro.
- (5) It is also necessary to indicate that actions and activities of the Programme may support reforms that may help Member States that wish to adopt the euro to prepare for participation in the euro area.
- (6) In order to meet the growing demand for support from Member States, and in view of the need to support the implementation of structural reforms in Member States whose currency is not the euro, the financial allocation for the Programme should be increased to a sufficient level that allows the Union to provide support that meets the needs of the requesting Member States.
- (7) In order to provide support with the least possible delay, the Commission should be able to use part of the financial envelope also to cover the cost of activities supporting the Programme, such as expenses related to quality control and monitoring of projects on the ground.
- (8) Regulation (EU) 2017/825 should therefore be amended accordingly.

- (9) In order to allow for the prompt application of the measures provided for in this Regulation, this Regulation should enter into force on the day following its publication in the Official Journal of the European Union,

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EU) 2017/825 is amended as follows:

- (1) Article 4 is replaced by the following:

“Article 4

General objective

The general objective of the Programme shall be to contribute to institutional, administrative and growth-sustaining structural reforms in the Member States by providing support to national authorities for measures aimed at reforming and strengthening institutions, governance, public administration, and economic and social sectors in response to economic and social challenges, with a view to enhancing cohesion, competitiveness, productivity, sustainable growth, job creation, and investment, which will also prepare for participation in the euro area, in particular in the context of economic governance processes, including through assistance for the efficient, effective and transparent use of the Union funds.”;

- (2) Article 5a is added

“Article 5a

Support for preparation for euro area membership

The Programme may finance actions and activities in support of reforms that may help Members States in their preparation to join the euro area.”.

- (3) Article 10 is amended as follows:

(a) paragraph 1 is replaced by the following:

“1. The financial envelope for the implementation of the Programme is set at EUR 222 800 000 in current prices.”;

(b) in paragraph 2, the following sentence is added:

“Expenses may also cover the costs of other supporting activities such as quality control and monitoring of support projects on the ground.”.

Article 2

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Amending Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down Common Provisions for 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 as regards support to Structural Reform in Member States

COM(2017) 826 final, 06.12.2017

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Reasons for and objectives of the proposal

Appropriate national policies are essential for the smooth functioning of a more integrated Economic and Monetary Union. Since many critical policy areas that are decisive remain primarily in the hands of the Member States, their coordination and the sequencing of reforms is essential to maximise their effectiveness, not only at national level, but also at EU level.

Under the post-2020 Multiannual Financial Framework, the Commission intends to propose a new reform delivery tool for Member States committing to reforms discussed at EU level and agreed in so-called 'reform commitments'. It would have its own budgetary endowment, separate from and in addition to the European Structural and Investment Funds, which would retain their own set of rules and conditionalities.

The European Semester should remain the core vehicle for further steps towards stronger convergence and more effective coordination of such policies. This new tool should be set up with a view to support Member States in implementing structural

reforms identified in the European Semester process, and ensure Member State ownership of these reforms.

This new reform delivery tool would seek to support a broad range of reforms. The focus should be on those reforms which can contribute most to the resilience of domestic economies and have positive spill-over effects on other Member States. These include reforms in product and labour markets, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms.

The Commission intends to test the main features of this reform delivery tool in a pilot phase for the period 2018-2020, by offering the possibility to Member States to use all or part of the performance reserve in the current European Structural and Investment (ESI) Funds to support reforms instead of specific projects. To this end, the Commission proposes amendments to the Regulation (EU) 1303/2013 (Common Provisions Regulation) accordingly.

It should be recalled that a link between the European Semester priorities and the Union budget has already been established for the programming period 2014-2020, notably by introducing ex-ante and macro-economic conditionalities for the European Structural and Investment Funds.

Under today's proposal, such a link is further strengthened by allowing Member States to use all or part of the performance reserve set up in Articles 20 – 22 of the Common Provisions Regulation for cohesion policy to support structural reforms.

The reforms to be supported would be identified in multiannual reform commitment packages presented and monitored through the National Reform Programmes. The reform commitments would be defined by the Member States themselves and would include a set of reform measures with clear milestones and targets.

The Commission would then adopt a decision, by means of an implementing act, setting out these reform commitments and the amount allocated from the performance reserve for their support. This amount would be proportionate to the nature and importance of the reform. The monitoring and reporting on the implementation of its different milestones would be part of the European Semester. National Reform Programmes would be the source of information on progress and should provide information on steps towards reform completion.

The annual Country Reports produced by the Commission's services as part of the European Semester would provide an updated assessment of the reform progress, on the basis of which the award of support under this tool will be decided by the

Commission. Support would be paid in full once the Member State has fully implemented the reform commitment.

Consistency with existing policy provisions in the policy area

The proposal is consistent with the overall legal framework established for the European Structural and Investment Funds and is limited to a targeted amendment of the Common Provisions Regulation.

Consistency with other Union policies

The proposal is limited to a targeted amendment of the Common Provisions Regulation and maintains consistency with other Union policies. The new structural support instrument would be complementary to the voluntary technical support provided via the Structural Reform Support Programme (SRSP). The reform commitments could also include areas for which technical support from the SRSP would be requested from the Commission. Request for such technical support would remain voluntary.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

Legal basis

The Common Provisions Regulation defines the common rules applicable to the European Structural and Investment Funds . Based on the principle of shared management between the Commission and the Member States, this Regulation includes provisions for the programming process as well as arrangements for programme (including financial) management, monitoring, financial control and evaluation of projects.

The proposal creates an option for Member States to allocate the performance reserve referred to in Articles 20 to 22 to structural reform support on the basis of reform commitments, and defines the mechanisms for implementing reform commitments.

Subsidiarity (for non-exclusive competence)

The proposal complies within the subsidiarity principle to the extent that it provides continued increased support through cohesion policy for certain Member States which opt for the use of the performance reserve for structural reform support. This mechanisms needs to be established at European level.

Proportionality

The proposal is a limited and targeted change not going beyond what is necessary to achieve the objective of providing support to reforms in Member States.

Choice of the instrument

Proposed instrument: amendment of the current regulation.

The Commission has explored the scope for manoeuvre provided by the legal framework and considers it necessary, in the light of experience, to propose modifications to Regulation (EU) 1303/2013.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

Ex-post evaluations/fitness checks of existing legislation

There was no ex-post evaluation/or fitness checks of the existing legislation.

Stakeholder consultations

There was no consultation of external stakeholders

Collection and use of expertise

Use of external expertise has not been necessary.

Impact assessment

n/a

Regulatory fitness and simplification

This is not an initiative within the Regulatory Fitness Programme (REFIT).

Fundamental rights

The proposal has no consequences for the protection of fundamental rights.

4. BUDGETARY IMPLICATIONS

There is no impact on commitment appropriations since no modification is proposed to the maximum amounts of European Structural and Investment Funds financing provided for in the operational programmes for the programming period 2014-2020. It should be noted that the proposed modification does not imply any changes in the Multiannual Financial Framework annual ceilings for commitments and payments, which are set out in Annex I of Regulation (EU) No 1311/2013.

5. OTHER ELEMENTS

Implementation plans and monitoring, evaluation and reporting arrangements

Not applicable. The existing delivery systems for direct management of the European Structural and Investment Funds can be used to monitor the implementation of this proposal.

Explanatory documents (for directives)

Not applicable

Detailed explanation of the specific provisions of the proposal

Article 1 will be modified to explain that the Common Provisions Regulation also covers support to structural reforms identified in the European Semester process. The term 'structural reform' is clarified in a dedicated definition included in Article 2.

Article 4(7) is modified to clarify that the structural reform support will not fall under shared management, but under direct management (financing not linked to cost as set out in Article 121(1)(e) of the revised Financial Regulation), and not require national co-financing.

In Article 15, a new point is added to explain that the partnership agreements also need to contain information on the re-allocation of the performance reserve to structural reform support.

Article 22 of Regulation (EU) No 1303/2013 is proposed to be modified to allow Member States to allocate the performance reserve partially or fully to any of the following:

- a. to programmes and priorities which have achieved their milestones in accordance with paragraphs two to seven under the existing performance framework,

b. to support for structural reforms

The modalities for requesting structural reform support are included in a new paragraph 8 in Article 22.

A new funding mechanism for support to structural reforms in the form of financing not linked to cost is proposed in Article 23a of this Regulation. It contains the rules for establishing reform commitments and the conditions for the disbursement of the support to Member States once the agreed reform commitments are met.

The amendment to Article 91 clarifies that all or part of the performance reserve which is included in the overall amounts for the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund may be allocated to support for structural reforms as referred to in Article 23a.

2017/0336 (COD)

**PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT
AND OF THE COUNCIL**

amending 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 as regards support to structural reforms in Member States

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the third paragraph of Article 175 and Article 177 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

After consulting the European Economic and Social Committee¹,

After consulting the Committee of the Regions²,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Since the economic governance of the Union contributes to economic, social and territorial cohesion, it should be possible to support reform commitments undertaken by Member States to implement relevant Council recommendations or to maximise the growth and competitiveness impact of the cohesion policy funds as a specific form of support implemented in direct management.

¹ OJ C, , p. .

² OJ C, , p. .

- (2) In order to facilitate reforms conducted by the Member States in the context of the economic governance process, it is necessary to open the possibility to partially or fully allocate the performance reserve set up by Article 20 of the Regulation (EU) 1303/2013³ to support reform commitments undertaken by the Member States.
- (3) Any reallocation from the performance reserve should be subject to the fulfilment of commitments with respect to implementing reforms identified in the European Semester process. Priority should be given for the implementation of structural reforms which are expected to contribute most to the resilience of domestic economies and have positive spill-over effects on other Member States. These include reforms in product and labour markets, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms.
- (4) It is appropriate that Member States propose a detailed set of measures for the implementation of the structural reforms which should contain milestones and targets and a timetable of not more than three years
- (5) Support to reform commitments should take the form of financing not linked to cost referred to in Article 121(1)(e) of Regulation (EU) ... [Revised Financial Regulation] under direct management. The amount allocated to the implementation of the structural reforms should be proportionate to the nature and importance of the reform and should complement existing Union support to national reforms.
- (6) The procedure for the establishment of such commitments, their content and the provisions applicable to this specific form of support should be defined.
- (7) In order to allow for the prompt application of the measures provided for in this Regulation, this Regulation should enter into force on the day following that of its publication in the *Official Journal of the European Union*.
- (8) Therefore, Regulation (EU) No 1303/2013 should be amended accordingly,

HAVE ADOPTED THIS REGULATION:

³ OJ L 347, 20.12.2013, p.320

Article 1

Regulation (EU) No 1303/2013 is amended as follows:

1. In Article 1 the first paragraph is replaced by the following:

“This Regulation lays down the common rules applicable to the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), which operate under a common framework (the 'European Structural and Investment Funds' - 'ESI Funds'). It also lays down the provisions necessary to ensure the effectiveness of the European Structural and Investment Funds and their coordination with one another and with other Union instruments, and the rules for the use of the performance reserve to support structural reforms identified in the European Semester process. The common rules applying to the European Structural and Investment Funds are set out in Part Two. The rules applying to the partial or full use of the performance reserve to support structural reforms are laid down in Article 23a.”

2. In Article 2, point 40 is inserted:

"structural reforms' mean reforms identified in the European Semester process in accordance with Article 2-a of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies."

3. In Article 4, paragraph (7) shall be replaced by the following:

“7. The part of the budget of the Union allocated to the European Structural and Investment Funds shall be implemented within the framework of shared management between the Member States and the Commission, in accordance with Article 62 of the Financial Regulation, with the exception of the amount of support from the Cohesion Fund transferred to the Connecting Europe Facility referred to in Article 92(6) of this Regulation, innovative actions at the initiative of the Commission under Article 8 of the ERDF Regulation, technical assistance at the initiative of the Commission, the support for direct management under the EMFF Regulation and the use of the performance reserve for the Funds to support structural reforms in accordance with Article 23a.”

4. In Article 15, a point (viii) is added to paragraph (1) point (a):

“(viii) information on the re-allocation of the performance reserve used in accordance with Article 22(1a) point b),”

5. In Article 20 the first paragraph shall be replaced by the following:

“6 % of the resources allocated to the ERDF, ESF and the Cohesion Fund under the Investment for Growth and Jobs goal referred to in point (a) of Article 89(2) of this Regulation, as well as to the EAFRD and to measures financed under shared management in accordance with the EMFF Regulation shall constitute a performance reserve which shall be established in the Partnership Agreement and programmes and either allocated to specific priorities or, for the ERDF, ESF and Cohesion Fund, support structural reforms in accordance with Article 22 of this Regulation.”

6. In Article 22, the following paragraph (1a) is added:

"1a. A Member State may decide to partially or fully use the performance reserve for either:

- (a) programmes and priorities which have achieved their milestones in accordance with paragraphs 2 to 7;
- (b) support for structural reforms, on the basis of reform commitments implemented in accordance with paragraph 8 and Article 23a.

In Article 22, the following paragraph (8) is added:

"8. The decision of a Member State to use parts of or the full performance reserve to support structural reforms pursuant to paragraph (1a) shall be accompanied by a proposal to undertake reform commitments pursuant to Article 23a, and a proposal to re-allocate all or part of the performance reserve in submitting an amendment in accordance with Articles 16(4) and 30(3)."

7. A new Article 23a is added:

"Support to structural reforms on the basis of reform commitments in the European Semester process"

1. A Member State which opts for a partial or full allocation of the performance reserve under point (b) of Article 22(1a) shall propose to the Commission a detailed set of measures appropriate for the implementation of structural reforms in accordance with Union law. This proposal shall include reform commitments which shall contain milestones and targets for the implementation of the reform measures and a timetable which shall not be longer than three years.
 2. The Commission shall assess the proposal. It may make observations or seek additional information. The Member State concerned shall provide the requested additional information and revise the reform commitments if requested to do so.
 3. The Commission shall adopt a decision, by means of an implementing act, setting out the reform commitments to be implemented by the Member State and the amount allocated from the performance reserve for their support. This amount shall be proportionate to the nature and importance of the reform and complement other measures or operations supported from Union funds.
 4. Support to structural reforms by Member States under this Article shall take the form of a financing not linked to cost referred to in Article 121 (1)(e) of the Financial Regulation, shall be managed in line with the rules for direct management set out in that Regulation, and shall not require national co-financing. Chapter I of Title II, and Titles III to IX of Part Two of this Regulation do not apply.
 5. The decision referred to in paragraph 3 shall lay down that the support is paid in full once the Member State has fully implemented the reform commitment.
 6. The Member State shall regularly report within the mechanisms of the European Semester on the progress in the achievement of the reform commitment. The modalities and timetable of the reporting shall be laid down in the decision referred to in paragraph 4.
8. In Article 91, the following paragraph is added:
- "4. All or part of the performance reserve which is included in the amounts set out in Articles 91 and 92 may be allocated to support for structural reforms as referred to in Article 23a on request of a Member State under Article 22(8)."

Article 2

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President

PROPOSAL FOR A COUNCIL REGULATION

On the establishment of the European Monetary Fund

COM(2017) 827 final, 06.12.2017

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Reasons for and objectives of the proposal

It is almost sixteen years since the first euro coins and notes entered European citizens' daily lives. The currency is now used every day by 340 million Europeans in 19 Member States ("euro area"). The euro is the second most used currency worldwide. Sixty other countries and territories around the world, home to 175 million people, have chosen to use the euro as their currency or to peg their own currency to it.

The financial and economic crisis that hit Europe in 2008, the consequences of which are still felt to this day, did not start in the euro area but it laid bare some of its institutional weaknesses. As an emergency response to the immediate challenges, several instruments were adopted. They provided new financial firewalls, assisted the countries most affected and stepped up policy coordination at EU level. Apart from the European Financial Stabilisation Mechanism ("EFSM") based on Council Regulation (EU) No 407/2010, most of them were established outside of the Union legal framework. Member States provided bilaterally financial assistance to Greece and set up the European Financial Stabilisation Facility ("EFSF"). Still in 2010, the European Council concluded that the EFSF, established as a temporary mechanism only, should be replaced by a permanent institution, the European Stability Mechanism ("ESM"). They strengthened the fiscal and financial rules in order to prevent the crisis from escalating further. Monetary policy action by the European Central Bank has also proved decisive.

After years of low or no growth, determined efforts at all levels have started to pay off. Europe is now experiencing a robust recovery. All Member States are now growing and

overall EU growth has stood at around 2% on average for several years in a row.¹ The economic sentiment indicator is at its highest in the EU and euro area since 2000. Unemployment is at its lowest since late 2008. Popular support for the euro is the highest in the euro area since the introduction of the euro notes and coins in 2002.² However, as the current Commission said when taking office, the crisis is not over as long as unemployment remains so high, with 14.3 million people still without a job in the euro area in October 2017.

Important lessons needed to be drawn from the crisis years. The relevant issues were already clearly identified in the Five Presidents' Report of June 2015³. Since then, a lot has been done in order to "deepen" the Economic and Monetary Union ("EMU") by "doing". The European Semester of economic policy coordination has been strengthened with clearer guidance for the euro area as a whole and a stronger focus on social aspects. Economic governance has been improved, with the creation of a European Fiscal Board and National Productivity Boards. Technical assistance to Member States was boosted with the creation of the Structural Reform Support Service. Important steps towards completing the Banking Union⁴ and Capital Markets Union⁵ have been taken, notably by advancing in parallel on risk-reduction and risk-sharing measures in the banking sector. To increase ownership at all levels, the dialogue with national and European political actors and social partners has also been intensified.

As a result, the euro area architecture is much more robust than ever before but this does not mean that it is complete. The Reflection Paper on the deepening of the Economic and Monetary Union,⁶ as well as the Reflection Paper on the future of EU finances⁷ presented by the Commission as part of the follow-up to the White Paper on the Future of Europe,⁸ recalls the state of play and outlines a possible way forward to 2025.

Europe is now visibly regaining its strength. Both economically and politically, there is a window of opportunity and positive developments are further encouragements to act. There should be no complacency: one should always fix the roof when the sun is shining.

¹ European Economic Forecast Autumn 2017; Institutional Paper 63.

² Flash Eurobarometer 458, 4 December 2017.

³ "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.

⁴ See in particular COM(2017) 592 final, 11 October 2017.

⁵ COM(2017) 292 final, 8 June 2017.

⁶ COM(2017) 291, 31 May 2017.

⁷ COM(2017) 358, 28 June 2017.

⁸ COM (2017) 2025, 1 March 2017.

In his State of the Union address on 13 September 2017,⁹ President Juncker set out his views for a More United, Stronger and More Democratic Union and made it clear that the completion of Europe's Economic and Monetary Union is an essential part of the roadmap leading to the meeting of Leaders in Sibiu, called by President Tusk for 9 May 2019, where important decisions on the future of Europe should take place.

This is also reflected in the Leaders' Agenda,¹⁰ with EU Leaders planning a Euro Summit on 15 December 2017 to discuss a timeline for decisions on the Economic and Monetary Union and the Banking Union, and a dedicated meeting planned on 28-29 June 2018 with a view of reaching concrete decisions.

The call for unity, efficiency and democratic accountability of the State of the Union address is particularly relevant for the completion of the Economic and Monetary Union:

- **Unity:** The euro is the single currency of the EU and what is conceived for the euro area should also be conceived for and with those Member States that are expected to join the euro in the future. With the exception of the United Kingdom and Denmark, all non-euro Member States are legally committed to joining the euro eventually.¹¹ Moreover, with the United Kingdom's departure, euro area economies will represent about 85% of the EU's total Gross Domestic Product. The EU's political and economic integration, of which the single market is the core, means that the futures of both euro and non-euro Member States are already intertwined, and a strong and stable euro area is key to its members as well as to the EU as a whole.

This explains why it is important that the euro area Member States through the European Monetary Fund ("EMF") jointly with the non-euro Member States which participate in the Banking Union provide a backstop for the Single Resolution Board ("SRB") on equivalent terms and conditions to allow the Single Resolution Board to use such means if necessary for undertaking successfully a resolution action in the Banking Union.

- **Efficiency:** A stronger Economic and Monetary Union requires stronger governance and a more efficient use of available resources. The current system still reflects a patchwork of decisions taken to face an unprecedented crisis. This has sometimes led to a multiplication of instruments and an increased sophistication of rules, which is a source of complexity and creates risks of

⁹ President Jean-Claude Juncker's State of the Union Address 2017, 13 September 2017.

¹⁰ Leaders' Agenda: Building our future together, endorsed by the European Council on 20 October 2017.

¹¹ To note that among the non-euro Member States, Denmark and Bulgaria have pegged their currency to the euro since the introduction of the latter in 1999. Unlike Denmark, Bulgaria does not participate in the Exchange Rate Mechanism II, but the lev is pegged to the euro within the framework of a currency board arrangement.

duplications. Greater synergies, streamlined procedures and integration of intergovernmental arrangements within the EU legal framework would strengthen governance and decision-making. It is also for efficiency reasons that all the changes proposed by the Commission as part of today's package can be implemented within the framework of the current EU Treaties.

Experience has shown that it is difficult and cumbersome to articulate a collective action of the Member States with the competences of economic policy coordination conferred on the Union. More generally, the coexistence of the Union institutions and of a permanent intergovernmental mechanism such as the ESM generates a complex landscape where judicial protection, respect of fundamental rights and democratic accountability are fragmented and unevenly implemented. Furthermore, the decision-making process under an intergovernmental method usually requires cumbersome national procedures and is therefore often difficult to reconcile with the speed needed for ensuring an effective crisis management, as illustrated by the use in July 2015 of the EFSM to bridge finance an ESM support to Greece: amending an EU Regulation and deciding to use it proved in practice to be quicker than taking an ordinary ESM decision of disbursement. This also extends to the adaptation of actions to new circumstances. Since even minor modifications rely on the signature of all contracting parties at the highest political level, the approval of the national Parliaments may be necessary to modify them. Those procedures are time consuming and may prevent taking action at the time when it is needed. The EU legal framework, on the other hand, offers a potential range of methods for modifications of existing acts, with their complexity corresponding to the seriousness of the issue in question and the form of the measure to be adapted. Application of EU decision-making framework would therefore make the process of adjustments of relevant provisions faster, if needed. Greater synergies and a more streamlined decision-making would strengthen governance and procedures.

- **Democratic accountability:** Completing the Economic and Monetary Union also means greater political responsibility and transparency about who decides what and when at the different levels. This requires bringing the European dimension of decision-making closer to citizens and more to the forefront of national debates and making sure that both national Parliaments and the European Parliament have sufficient powers of oversight on the management of the EU's economic governance. This should also lead to greater ownership of collective decisions and openness on the way they are taken and communicated. This is in particular true for the EMF as successor to the ESM. Democratic accountability is a key aspect of the debate on the future of Europe. The ESM has acquired over the years a very important role. Its transformation into a EMF should be accompanied with an effort to anchor its functioning in the robust accountability framework of the Union together with a fully-fledged judicial control. The involvement of the European Parliament in particular would enhance democratic oversight, while the

role for National Parliaments remains fully preserved, in view of the large contributions of the Member States to the EMF.

For all the abovementioned reasons, the necessary structures for providing financial stability support to euro area Member States are best placed in the Union framework and in the hands of a Union body created for such purpose. Given the financial constraints and challenges faced by the Union itself and the accumulated expertise in this area by the ESM, however, setting up such a body from scratch would be prohibitively cost-inefficient. Hence, the proposed EMF should rather incorporate and absorb the already existing ESM with its current objectives, functions and instruments. The EMF now proposed by the Commission can be implemented within the framework of the current Treaties. Beyond such endeavour, this also offers the ideal occasion for creating a common backstop to the SRB. The creation of a backstop for the Single Resolution Fund ("SRF") was already agreed by Member States in 2013, as a complement to the political agreement on the Single Resolution Mechanism Regulation.¹² A common last-resort backstop would serve the purpose of providing enhanced confidence to all parties concerned with regard to the credibility of the actions to be taken by the SRB and to increase the financial capacity of the Single Resolution Fund. As a last resort tool, it would only be activated in case the Single Resolution Fund proved to be insufficient to finance the resolution of the bank or banks concerned. The backstop would be fiscally neutral over time, since any funds used would be recovered from the banking sectors in the Member States participating in the Banking Union.

Safeguarding the financial stability of euro area Member States is the rationale linking the SRB with the EMF and its predecessor, the ESM, created in order to safeguard the financial stability of the euro area. In fact, the now well-established sovereign-bank nexus implies that not only the financial soundness of sovereigns but also the one of systemic banks are a critical element for the financial stability of the euro area and the single currency itself. It is hence all the more natural that this proposal will provide the link between the activities of the SRB and of the EMF in the form of an instrument allowing for providing either a credit line or guarantees to the SRB in support of its activities.

In recent years, many views have been expressed on the completion of the Economic and Monetary Union. Opinions may differ but there is a broad consensus on the need to make further progress. There have also been very significant contributions from the European Parliament¹³ and important discussions in the Eurogroup.¹⁴

¹² Statement of Eurogroup and Economic and Financial Affairs Council Ministers on the Single Regulation Mechanism backstop, 18 December 2013.

¹³ See in particular the European Parliament resolutions of 16 February 2017 on i) budgetary capacity for the euro area (2015/2344(INI)), ii) possible evolutions of and adjustments to the current institutional set-up of the

The proposed Regulation on the establishment of the EMF is one of the initiatives announced in the Commission's Communication on "Further steps towards completing the economic and monetary union". This Communication gives a summary of the rationale and content of all the initiatives presented by the Commission. It then recalls how this package is embedded in a broad roadmap to complete the Economic and Monetary Union by 2025 and provides a timeline for action over the next 18 months.

This proposal builds on the well-established structure of the European Stability Mechanism by creating a European Monetary Fund anchored within the EU's legal framework. This was already announced in the Five Presidents' Report and has also been called for by the European Parliament which stressed the need for the European Monetary Fund to be equipped with adequate lending and borrowing capacities and a clearly defined mandate.¹⁵

The European Stability Mechanism was set up in October 2012 at the height of the crisis. The pressure of events at the time led to an intergovernmental solution being found. However, it was already clear then that this could also be achieved within the framework of the EU Treaties, as indicated, for instance, in the Commission's Blueprint for a Deep and Genuine Economic and Monetary Union.¹⁶

Over the years, the European Stability Mechanism has proven decisive in helping to preserve the financial stability of the euro area. It has done so by providing additional financial support to euro area Member States in distress. Its transformation into a European Monetary Fund will further strengthen its institutional anchoring. It will help to create new synergies within the EU framework, notably in terms of transparency, judicial review and efficiency of the EU's financial resources and thus offering a better support to Member States. It will also help improve further the cooperation with the Commission and accountability to the European Parliament. This will be done without affecting the way in which national governments are held to account by their own national Parliaments and preserving the commitments of the existing European Stability Mechanism.

European Union (2014/2248(INI)) and iii) improving the functioning of the European Union building on the potential of the Lisbon Treaty (2014/2249(INI)).

¹⁴ See in particular Eurogroup of 6 November 2017 on "Fiscal capacity and fiscal rules for the Economic and Monetary Union", Eurogroup of 9 October 2017 on "Deepening Economic and Monetary Union – The role of the ESM" (ecfin.ccf.cpe(2017)5598799) or Eurogroup of 10 July 2017 on "Follow-up on deepening of the Economic and Monetary Union" (ecfin.ccf.cpe(2017)3980511).

¹⁵ European Parliament's resolution of 16 February 2017 on a budgetary capacity for the euro area (2015/2344(INI)).

¹⁶ COM(2012)777 "Blueprint for a Deep and Genuine Economic and Monetary Union", 28 November 2012.

The initiative takes the form of a proposal for a Council Regulation, which is subject to the consent of the European Parliament, under Article 352 of the Treaty on the Functioning of the European Union. Article 352 allows for the integration of the European Stability Mechanism into the Union framework, as this action is necessary for the financial stability of the euro area¹⁷ and the Treaties have not provided any other legal basis for the EU to reach this precise objective.¹⁸ Paragraph 2 of that Article explicitly foresees a role for national Parliaments. Historically, several significant decisions paving the way towards the establishment of the Economic and Monetary Union have been based on the equivalent of Article 352. For instance, decisions on the European Monetary Cooperation Fund, the European Currency Unit and the first balance of payment mechanisms were taken under Article 235 of the Treaty on the European Economic Community, the predecessor to Article 352.

The proposal is complemented by a draft of what could become an intergovernmental agreement for euro area Member States to agree among themselves on the transfer of funds from the European Stability Mechanism to the European Monetary Fund. This also foresees that the Fund would succeed to and replace the ESM, including in its legal position, with all its rights and obligations.

Under today's proposal, the European Monetary Fund will be established as a unique legal entity under Union law. It will succeed the European Stability Mechanism, with its current financial and institutional structures essentially preserved. This means that the European Monetary Fund will continue to provide financial stability support to Member States in need, to raise funds by issuing capital market instruments and to engage in money market transactions. The membership will not change and the participation of additional Member States will remain possible, once they adopt the euro.

Given that the European Monetary Fund would become a Union body, some targeted adjustments are necessary to the current structure of the European Stability Mechanism. They include an endorsement by the Council of discretionary decisions taken by the European Monetary Fund.¹⁹

¹⁷ The necessity of having a body like the European Stability Mechanism to safeguard the stability of the euro area is based on factual elements and confirmed by Article 136(3) Treaty on the Functioning of the EU, as well as the second recital of the European Stability Mechanism Treaty which refer to the current European Stability Mechanism as "a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole".

¹⁸ The European Court of Justice has already considered the possibility that Article 352 could be used to establish a Union body in charge of providing financial support to ensure stability of the euro area. See "Pringle case"-judgment of 27 November 2012, Case C-370/12, EU:C:2012:756, paragraph 67.

¹⁹ This will ensure compliance with the "Meroni doctrine". The Meroni doctrine, which arose from Cases 9/56 and 10/56 (Meroni v High Authority [1957/1958] ECR 133), relates to the extent to and conditions under which EU Institutions may delegate their tasks to regulatory agencies.

In addition, today's proposal adds a limited number of new features.

First, the European Monetary Fund will be able to provide the common backstop to the Single Resolution Fund. This is an essential component of the second pillar of the Banking Union, the so-called Single Resolution Mechanism.²⁰ When the Single Resolution Mechanism was adopted in 2013, Member States also agreed to develop a backstop to the Single Resolution Fund. This was meant as a last resort to be activated if the Single Resolution Fund's immediately available resources proved to be insufficient for capital or liquidity purposes. Member States also agreed that it should be fiscally neutral over the medium term so that any potential deployment of the backstop would be recovered from the banking sector in the euro area.

New EU rules on banking supervision and resolution developed in the aftermath of the crisis have significantly reduced the likelihood and potential impact of bank failures. However, a common fiscal backstop continues to be needed to enhance the financial capacity of the Single Resolution Fund. Such a backstop will instil confidence in the banking system by underpinning the credibility of actions taken by the Single Resolution Board. In turn, this would actually reduce the likelihood of a situation in which a backstop would be to be called on.

There is now wide consensus that the European Stability Mechanism – the future European Monetary Fund – is best placed to provide such a backstop in the form of a credit line or guarantees to the Single Resolution Fund. This is reflected in today's proposal which also sets out appropriate decision-making processes to ensure that the backstop can be deployed quickly, if needed. Special arrangements are also proposed to cater for the legitimate interests of non-euro Member States having joined the Banking Union.

Second, in terms of governance, the proposal includes the possibility for faster decision-making in specific urgent situations. It is proposed to keep unanimity voting for all major decisions with financial impact (e.g. capital calls). However, reinforced qualified majority, in which 85% of the votes are required, is proposed for specific decisions on stability support, disbursements and the deployment of the backstop.

Third, as regards the management of financial assistance programmes, the proposal foresees a more direct involvement of the EMF, alongside the European Commission.

²⁰ Regulation (EU) No 806/2014. The Single Resolution Board (SRB) is the resolution authority for large and systemic banks in the euro area, operational since January 2016. The Single Resolution Fund (SRF) is financed via contributions from the euro area banking sector. It may be used to finance resolution costs, provided that all conditions of the regulatory framework are met, including the bail-in of 8% of total liabilities of the bank concerned.

Fourth, the proposal refers to the possibility for the European Monetary Fund to develop new financial instruments. Over time, such instruments could supplement or support other EU financial instruments and programmes. Such synergies could prove particularly useful if the European Monetary Fund were to play a role in support to a possible stabilisation function in the future.

With these changes, the European Monetary Fund will establish itself as a robust crisis management body within the Union framework, working in full synergy with other EU Institutions. The Council and the Commission will retain their competences and responsibilities in terms of economic and fiscal surveillance and policy coordination, as set out in the EU Treaties.

Practical cooperation can also be stepped up to better serve Member States, engage with market participants and avoid duplications of activities. Further cooperation could be sought in the light of further progress towards the strengthening of Economic and Monetary Union.

Proposed improvements of the ESM set-up

The proposed Regulation and its Annex containing the Statute of the EMF is based on the ESM Treaty and the ESM By-laws.

In particular the Annex largely mirrors the text of the ESM Treaty. It leaves a number of articles of the ESM Treaty broadly unchanged. It concerns articles related to the capital stock, capital calls as well as the contribution key (Articles 8, 9 and 11), the articles related to the instruments for providing financial stability support to EMF Members (Articles 14 to 18), the pricing policy (Article 20), the borrowing operations (Article 21), the financial management (Articles 25 to 28), the internal audit (Article 33), and the temporary correction of the contribution key (Article 44).

The proposal departs from the text of the current ESM Treaty for two reasons, legal consistency with the EU legal framework and limited changes with a view to enhance the operations and decision-making of the EMF.

1) Legal consistency with the EU legal framework:

First, the proposed Regulation itself includes articles with changes which are necessary for reasons of consistency with EU law: the establishment of the EMF (Article 1), its legal succession to and replacement of the EMF (Article 2), the introduction of an approval process by the Council for decisions taken by the Board of Governors or Board of Directors which exhibit political discretion (Article 3) and the related publication requirements (Article 4), and dedicated accountability provisions (Articles

5 and 6) towards the European Parliament and national Parliaments. Two final provision are also foreseen (Articles 7 and 8).

Second, the Annex to the proposed Regulation contains the Statute of the EMF. It contains changes in order to ensure consistency with Union law such as: the determination of the lending capacity (Article 8), the principles for stability operations (Article 12), inclusion of the instrument for providing assistance for the direct recapitalisation of credit institutions (Article 19), the procedure related to the EMF budget (Articles 29-30), the annual accounts (Article 31), the financial statements and the annual reports (Article 32), the external audit (Article 34), the Board of Auditors (Article 35), the seat agreement (Article 37), the privileges and immunities (Article 38), the staff provisions (Article 39), professional secrecy and exchange of information (Article 40), the management empowerment related to the EFSF (Article 42), anti-fraud measures (Article 45), access to documents (Article 46), language requirements (Article 47).

2) Enhancement of the operations and decision-making of the EMF:

Moreover, changes are introduced to articles of the ESM Treaty for achieving certain additional objectives: enhancing the voting procedures (Articles 5 and 6), the appointment procedure for the managing director (Article 7), establishment of the new function to support the SRB and amending the EMF objectives and principles accordingly (Articles 3, 22 to 24), providing more flexibility with regard to cooperation arrangements (Article 41).

3) Table of equivalence

The following correlation table provides an overview of the compared structure of the ESM Treaty on the left side and of the proposed Regulation and the Statute of the EMF on the right side:

| Articles of the ESM Treaty | Corresponding provisions of the proposed EMF Regulation and the Statute of the EMF ("Statute") |
|--------------------------------------|---|
| Article 1 (establishment of the EMF) | Article 1 of the proposed Regulation (establishment of the EMF) |
| - | Article 2 of the proposed Regulation (succession to and replacement of the ESM) |
| - | Article 3 of the proposed Regulation (role of the Council) |
| - | Article 4 of the proposed Regulation (publication) |

2. Proposals for deepening the Economic and Monetary Union

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| - | Article 5 of the proposed Regulation (European Parliament) |
| - | Article 6 of the proposed Regulation (national Parliaments) |
| - | Article 7 of the proposed Regulation (references to ESM in existing Union legislation) |
| - | Article 1 of the Statute (legal status of the EMF) |
| Article 2 (membership) | Article 2 of the Statute (membership) |
| Article 3 (purpose) | Article 3 of the Statute (objective and tasks) |
| Article 4 (structure and voting rules) | Article 4 of the Statute (structure and voting rules) |
| Article 5 (board of governors) | Article 5 of the Statute (board of governors) |
| Article 6 (board of directors) | Article 6 of the Statute (board of directors) |
| Article 7 (managing director) | Article 7 of the Statute (managing director) |
| Article 8 (authorised capital stock) | Article 8 of the Statute (initial authorised capital stock) |
| Article 9 (capital calls) | Article 9 of the Statute (capital calls) |
| Article 10 (changes in authorised capital stock) | Article 10 of the Statute (capital increases) |
| Article 11 (contribution key) | Article 11 of the Statute (contribution key) |
| Article 12 (principles) | Article 12 of the Statute (principles underlying stability operations of the EMF) |
| Article 13 (procedure for granting stability support) | Article 13 of the Statute (procedure for granting stability support to EMF Members) |
| Article 14 (ESM precautionary financial assistance) | Article 14 of the Statute (EMF precautionary financial assistance) |
| Article 15 ((financial assistance for the re-capitalisation of credit institutions of an ESM Member) | Article 15 of the Statute (financial assistance for the re-capitalisation of credit institutions of an EMF Member) |

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| Article 16 (ESM loans) | Article 16 of the Statute (EMF loans) |
| Article 17 (primary market support facility) | Article 17 of the Statute (primary market support facility) |
| Article 18 (secondary market support facility) | Article 18 of the Statute (secondary market support facility) |
| Article 19 (review of the list of financial instruments) | - |
| - | Article 19 of the Statute (instrument for the direct recapitalisation of credit institutions) |
| Article 20 (pricing policy) | Article 20 of the Statute (pricing policy) |
| Article 21 (borrowing operations) | Article 21 of the Statute (borrowing operations) |
| - | Article 22 of the Statute (credit line or guarantees to the SRB) |
| - | Article 23 of the Statute (rules applying to the EMF) |
| - | Article 24 of the Statute (rules applying to the participating Member States whose currency is not the euro, within the meaning of Article 2 of Regulation (EU) No 1024/2013) |
| Article 22 (investment policy) | Article 25 of the Statute (investment policy) |
| Article 23 (dividend policy) | Article 26 of the Statute (dividend policy) |
| Article 24 (reserve and other funds) | Article 27 of the Statute (reserve and other funds) |
| Article 25 (coverage of losses) | Article 28 of the Statute (coverage of losses) |
| Article 26 (budget) | Article 29 of the Statute (budget) |
| - | Article 30 of the Statute (establishment of the budget) |
| Article 27 (annual accounts) | Article 31 of the Statute (annual accounts) |
| - | Article 32 of the Statute (financial statements and annual report) |

2. Proposals for deepening the Economic and Monetary Union

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| Article 28 (internal audit) | Article 33 of the Statute (internal audit) |
| Article 29 (external audit) | Article 34 of the Statute (external audit) |
| Article 30 (board of auditors) | Article 35 of the Statute (board of auditors) |
| Article 31 (location) | Article 36 of the Statute (location) |
| - | Article 37 of the Statute (seat agreement) |
| Article 32 (privileges and immunities) | Article 38 of the Statute (privileges and immunities) |
| Article 33 (staff of ESM) | Article 39 of the Statute (staff of the EMF) |
| Article 34 (professional secrecy) | Article 40 of the Statute (professional secrecy and exchange of information) |
| Article 35 (immunities for persons) | - |
| Article 36 (exemption from taxation) | - |
| Article 37 (interpretation and dispute settlement) | - |
| Article 38 (international cooperation) | Article 41 of the Statute (cooperation) |
| Article 39 (relation with EFSF lending) | - |
| Article 40 (transfer of EFSF supports) | - |
| - | Article 42 of the Statute (management of the EFSF) |
| Article 41 (payment of the initial capital) | Article 43 of the Statute (payment of initial capital) |
| Article 42 (temporary correction of the contribution key) | Article 44 of the Statute (temporary correction of the contribution key) |
| Article 43 (first appointments) | - |
| Article 44 (accession) | - |
| Article 45 (annexes) | - |
| Article 46 (deposit) | - |

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| Article 47 (ratification, approval or acceptance) | - |
| Article 48 (entry into force) | Article 8 of the proposed Regulation |
| - | Article 45 of the Statute (anti-fraud measures) |
| - | Article 46 of the Statute (access to documents) |
| - | Article 47 of the Statute (language requirements) |

Consistency with existing policy provisions in the policy area

With its proposal to establish the EMF, the Union would provide itself with a Union body to act decisively in order to safeguard the financial stability of its Member States. More specifically, in combination with the permanent facility for providing medium-term balance of payment support for non euro Member States, the Union would be equipped with a full range of permanent stabilisation facilities covering the entirety of the Member States, and drawing on considerable financial resources, over and beyond those accessible through the EFSM.

The proposed Regulation on the establishment of the EMF is also a logical step in addition to Regulation (EU) No 472/2013. In the latter Regulation the Union asserted its competence in the area of financial assistance and the economic policy coordination related thereto, while showing also its capacity to provide for appropriate arrangements, combining the democratic legitimacy of its framework with the efficiency of its decision-making structures. The establishment of the EMF within the Union framework is hence fully in line with the Union's past policy initiatives and complements previous action in that respect.

Furthermore, the creation of a backstop function in order to support the SRB complements recent initiatives to decisively weaken the link between Member States finances and their banking systems. By conferring to the SRB the design and execution of schemes to resolve credit institutions, Regulation (EU) No 806/2014 in addition to Directive 2014/59/EU was a major step into this direction. The Regulation empowers the SRB to contract financial arrangements to put into place funding arrangements. The proposal implements this while clarifying that any funds the SRB borrows from the EMF should be recouped fully from the banking system.

Also future policy initiatives such as for instance the establishment of a stabilisation function could be conceived in this context. A stabilisation function is defined by the

possibility to rapidly activate resources in an automatic way, subject to eligibility criteria defined in advance. The objective would be to use these resources to attenuate the effects of large asymmetric shocks. In case of a downturn, Member States would first use their automatic stabilisers and discretionary fiscal policy in compliance with the Stability and Growth Pact (SGP). The SGP provides for additional buffers and the necessity for a smaller fiscal effort to be undertaken during difficult economic conditions. Only if these buffers and stabilisers are not sufficient in the case of large asymmetric shocks, the stabilisation function would be triggered. The EMF could support the implementation of such a function by means of organising and making available any necessary market financing associated with the triggering of the function.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

Legal basis

The legal basis for this proposal is Article 352 TFEU. To use that Article, three conditions must be fulfilled. The first two conditions are that no specific legal basis exists in the Treaties and that the action is within the framework of Union policies. The European Court of Justice has already ruled that both conditions are met as regards the ESM (in the Pringle case²¹). Within the framework of the economic policy of the Union, as provided for in Title VIII "Economic and Monetary Policy" of Part III of the TFEU, the necessary powers for the Union to establish a Union body in charge of providing financial support for ensuring the financial stability of the euro area have not been enshrined. In the absence of any such powers, Article 352 TFEU allows the Council to adopt unanimously on a proposal from the Commission and after obtaining the consent of the Parliament, the appropriate measures. The third condition is the necessity to attain a Treaty objective. The necessity of having a body like the ESM to safeguard the financial stability of the euro area is based on factual elements and confirmed by Article 136 (3) TFEU and the second recital of the ESM Treaty which refer to the current ESM as "a stability mechanism to be activated if indispensable to safeguard the financial stability of the euro area as a whole". The establishment of the EMF is necessary to contribute to the safeguarding of the financial stability of the euro area as a whole, its Member States and the non euro Member States which participate in the Banking Union on the basis of a close cooperation agreement with the ECB in accordance with Council Regulation (EU) No 1024/2013.

The integration of the ESM into the Union framework through a Regulation based on Article 352 TFEU would ensure a seamless continuation of activities and a direct legal succession between the existing ESM and the new Union body (the EMF). The euro

²¹ Case C-370/12 *Pringle* EU:C:2012:756. The Court of Justice was asked by the Supreme Court of Ireland if euro area Member States were prevented from concluding the ESM Treaty amongst themselves by various provisions of the Treaties, including Articles 119 to 123 TFEU and 125 to 127 TFEU.

area Member States would agree that the capital of the ESM is attached to this body, through a simplified multilateral act.

Article 352 TFEU could also be used to confer additional tasks on the ESM when it is integrated into the Union.

Although a measure based on Article 352 TFEU is adopted by unanimity in the Council (EU28), the application of such a measure can be limited to a subset of Member States where the limitation rests on an objective reason. The fact that the ESM acts only to safeguard the financial stability of the euro area justifies that its membership is limited to euro area Member States. As a result, the proposed EMF could operate as the ESM currently does, with its support available only to euro area Member States and its internal governance structure made up of those same Member States.

Subsidiarity (for non-exclusive competence)

The financial stability of the economic and monetary union and the Member States which participate in the Banking Union has a Union wide dimension. Given the strong interconnections between euro area Member States, severe risks to the financial stability of Member States may put at risk the financial stability of other Member States and of the euro area as a whole.

The proposed Regulation sets out the framework for providing financial stability support to Member States whose currency is the euro and also foresees a new role which consists of providing the financial means to the SRB. Regarding the latter role, the EMF will be entitled to provide credit lines and guarantees to the SRB which could serve as a backstop for the Single Resolution Fund.

Member States and national authorities cannot unilaterally solve risks to financial stability posed to Member States by financial markets which operate on a cross-border basis beyond the scope of national jurisdictions. In addition, Member States have difficulties in mitigating on their own risks. Member States and national authorities cannot address on their own the systemic risks that another Member State or its credit institutions can pose to the financial stability of the Union as a whole.

The objectives of this Regulation cannot be sufficiently achieved by the Member States individually and can therefore, by reason of the scale of the action, be better achieved at Union level in accordance with the principle of subsidiarity as set out in Article 5(3) TFEU.

Proportionality

The proposal aims to ensure the financial stability in the euro area and the EU as a whole, its Member States, and those Member States which participate in the Banking Union. The proposal sets out a streamlined framework for the provision of financial stability support to EMF Members and the provision of credit lines and guarantees in support of the SRB with respect to financing potential resolution actions undertaken in the Member States which participate in the Banking Union.

The proposal sets out the different roles and responsibilities for all the governance bodies of the EMF and other Union institutions involved. It also provides for the financial instruments at the disposal of the EMF to achieve its objectives.

By establishing a central authority within the Union in charge of providing financial assistance to Member States, the proposal contributes to addressing the risks to financial stability for the euro area and its Member States while preserving the fiscal responsibilities of the Member States by requiring the beneficiary EMF Member to comply with strict policy conditions, appropriate to the financial assistance instrument chosen and the weaknesses to be addressed. Moreover, the EMF would also be tasked with providing financial support to the SRB. The EMF's involvement will contribute to breaking the negative feedback loops between sovereigns, banks and the real economy, which is crucial for a smooth functioning of the EMU.

At the same time, the proposal does not go beyond what is necessary to achieve the EMF's objective of reducing risks to financial stability for the euro area and its Member States. Any support provided by the EMF to EMF Members is subject to policy conditions aimed at addressing the weaknesses present in such Member with a view to rapidly re-establish a sound and sustainable economic and financial situation and restoring or enhancing the Member's capacity to finance itself fully on the financial markets.

Choice of the instrument

This act takes the form of a Regulation because the act creates a new body within the Union framework contributing to safeguarding the financial stability and has to be binding in its entirety and directly applicable in Member States.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

Fundamental rights

The EU is committed to high standards of protection of fundamental rights and is signatory to a broad set of conventions on human rights. In this context, the proposal could have a direct impact on these rights, as listed in the Charter of Fundamental Rights of the European Union ("The Charter") which is an integral part of the EU Treaties, and the European Convention on Human Rights ("ECHR").

This Regulation respects the fundamental rights and observes the rights, freedoms and principles recognised in particular by the Charter, and, in particular, the right to negotiate conclude and enforce collective agreements or take collective actions, the protection of personal data, the right of access to documents, and should be implemented in accordance with those rights and principles. By integrating the current ESM within the Union framework, it expands the scope of application of the Charter accordingly.

4. BUDGETARY IMPLICATIONS

The proposal is not expected to have any budgetary implications. The EMF's capital will be subscribed by the euro area Member States. The Union budget will not be liable for any expenses or losses of the EMF. The EMF will also have a self-financed budget.

5. OTHER ELEMENTS

Detailed explanation of the specific provisions of the proposal

Part I of the proposed Regulation (Articles 1 and 2) provides for the establishment of the EMF within the Union framework. Furthermore, this part also provides for a provision catering for issues related to the succession of the EMF to the ESM. The euro area Member States would need to agree that the capital of the ESM is attached to this body, through individual pledges or a simplified multilateral act. As further developed in the Statute, the authorised capital of the EMF would remain unchanged in comparison to the capital of the ESM.

Part II of the proposed Regulation (Articles 3 to 6) contains for legal reasons and with a view to respect the *Meroni* case-law of the Court of Justice of the European Union, a role for the Council. The latter should approve discretionary decisions taken by the Board of Governors and the Board of Directors. It also provides for the accountability arrangements of the EMF towards the European Parliament, the Council and the Commission. Such arrangements currently do not exist for the ESM in the ESM Treaty.

The EMF should be required to submit an annual report to the aforementioned Union institutions together with its annual accounts and its financial statements. The Managing Director can be invited by the Parliament or request to be invited. The EMF should also respond to oral and written questions from the Parliament. The possibility for organising confidential oral discussions just like it is the case for the SRB and the SSM should be provided for in view of the sensitive and confidential nature of the discussions relating the performance of the EMF's tasks. Moreover, the Regulation also provides for a more explicit scrutiny role of national Parliaments in comparison to the current state of play in the ESM Treaty. Such a role is warranted in view of the impact of the EMF's decisions on the political constituencies of its Members.

Part III of the proposed Regulation (Article 7 and 8) caters for references to the ESM in Union legislation as well as the entry into force of the proposed Regulation.

Part I of the Statute of the EMF annexed to this proposed Regulation (Articles 1 to 3) refers to the legal status of the EMF. The EMF shall be a Union body with legal personality. Furthermore, reference is made to the EMF's membership (Article 2). The latter shall consist of euro area Member States. This reflects the current membership of the ESM. Moreover, a provision is foreseen regarding the objectives and tasks of the EMF. In the same way as in the ESM architecture, the EMF would provide financial stability support to its members (euro area Member States). In addition to the ESM's current sole mission, the EMF would also be given the new task of providing credit lines or guarantees in support of the SRB for backstopping the SRF. The latter could serve as a public financial arrangement (backstop) within the meaning of Article 74 of Regulation No 806/2014.

Part II of the Statute of the EMF annexed to this proposed Regulation (Articles 4 to 7) concerns the organisation and decision-making proceedings, including the applicable voting rules of the EMF. Similar to the ESM, the EMF will have a Board of Governors, a Board of Directors, and a Managing Director who would be assisted by a management board. The categories of voting rules enshrined in the ESM Treaty will remain the same in the EMF. Four types of voting rules should be distinguished: (i) unanimity; (ii) reinforced qualified majority (85%), (iii) qualified majority (80%), and (iv) a simple majority. Similar to the rules of the ESM Treaty, unanimity has been kept for decisions having a major direct financial impact on Member States (e.g. decisions on the lending capacity, on capital calls not urgently needed). However, decisions related to granting financial support or disbursements to EMF Members were moved from mutual agreement to a reinforced qualified majority (85%). Moreover, in contrast to the current appointment process of the Managing Director, a consultative role has been foreseen for the European Parliament. Further clarifications stemming from the ESM By-laws on the Managing Director's role and the management board of the ESM have been introduced. Finally, Part II also provides for the rules on the remuneration of members and alternates of the Board of Governors and Board of Directors.

Part III of the Statute of the EMF annexed to the proposed Regulation (Articles 8 to 11) concerns the the authorised capital stock of the EMF and the lending capacity. The lending capacity and the authorised capital stock of the EMF should be fully preserved compared to the current situation in the ESM. The existing possibility to amend the capital stock and lending capacity of the EMF is maintained.

Part IV of the Statute of the EMF annexed to this proposed Regulation (Articles 12 to 21) provides for the principles underlying the stability support operations of the EMF, the procedure for granting financial stability support to EMF Members and the related financial instruments at the disposal of the EMF. These principles and procedures are the same as those provided for in the ESM Treaty with the exception that the EMF will be given a role in negotiating and signing the memorandum of understanding which accompanies the financial stability support operation. An explicit reference to Article 152 TFEU and the Charter of Fundamental Rights is also enshrined confirming that the Regulation in the context of providing financial stability support to EMF Members does not impinge on the right of collective bargaining and collective action. In addition to the instruments already provided for in the ESM Treaty with respect to the provision of financial stability support to euro area Member States, also integrates the instrument for the direct recapitalisation of credit institutions. This instrument was only created after the entry into force of the ESM Treaty on the basis of the enabling clause provide for in its Article 19.

Part V (Articles 22 to 24) of the Statute annexed to this proposed Regulation concerns the provision of a backstop by the EMF and non euro Member States which participate in the Banking Union. The provision of credit lines and guarantees to the SRB would be a totally new function for the EMF in comparison to the ESM's current objective and tasks. The combined amount of outstanding commitments for backstopping the SRF is subject to a ceiling of EUR 60 000 million. This ceiling can be increased. The Board of Governors in agreement with the non-euro Member States of the Banking Union should adopt the financial terms and conditions of such support to the SRB. To ensure a swift availability, the Managing Director shall be authorised to decide on the drawdown of the credit line or the provision of guarantees on liabilities of the SRB. In case the support is requested in relation to a resolution scheme, the SRB may ask such support before the adoption of the resolution scheme.

Part VI (Articles 25 to 28) of the Statute of the EMF annexed to this proposed Regulation deals with the financial management of the EMF. These provisions mirror those of the ESM Treaty.

Part VII (Articles 29 to 35) of the Statute of the EMF annexed to this proposed Regulation concerns the financial provisions of the EMF. Such rules reflect those of the ESM Treaty and the ESM By-laws. These rules concern the budget of the EMF and its establishment, the annual accounts, the financial statements and the annual report, the internal and external audit function and the role of the Board of Auditors.

Part VIII (Articles 36 to 41) of the Statute of the EMF annexed to this proposed Regulation provides for a number of provisions regarding the location of the EMF and its possibility to arrange for a seat agreement. Moreover, the EMF shall benefit from the privileges and immunities established in Protocol No 7. The current regime of privileges and immunities provided for in the ESM Treaty cannot be maintained for legal reasons. Part VIII also caters for the staff rules applicable to the EMF's staff. Rules regarding the confidentiality and exchange of information should be included. Such rules which differ in nature can also be found back in the By-laws of the ESM.

Part IX (Articles 42 to 44) of the Statute of the EMF annexed to this proposed Regulation provides for the transitional arrangements regarding the payment of new EMF members of their contribution to the authorised capital stock. The provision reflects the one provided for ESM Members in the ESM Treaty with the understanding that the article in this Regulation only applies to new EMF Members which would join once they adopt the euro in the future. The rule on the temporary correction of the capital key provided for in the ESM Treaty will also remain intact in the context of the EMF.

Part X (Articles 45 to 47) of the Statute of the EMF annexed to this proposed Regulation contains a number of provisions regarding transparency. Rules regarding anti-fraud measures, access to documents and language requirements are provided for.

PROPOSAL FOR A COUNCIL REGULATION
on the establishment of the European Monetary Fund

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 352 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Central Bank²²,

Having regard to the consent of the European Parliament,

Acting in accordance with a special legislative procedure,

Whereas:

- (1) The unprecedented financial and economic crisis that hit the world and the Union since 2007 seriously threatened financial stability and damaged economic growth, resulting in a strong deterioration in the government deficit and debt position of several Member States, leading a number of them to seek financial assistance within and outside the framework of the Union.
- (2) That crisis revealed that the Union lacked sufficiently solid instruments to act swiftly and decisively in response to challenges to its financial stability. Those instruments are essential for the stability of the euro area, its Member States, for its citizens and other economic actors, and are paramount to strengthen confidence in the single currency.
- (3) In response to the exceptional situation of a severe deterioration of the borrowing conditions of several Member States, beyond what could be

²² OJ C , , p .

explained by economic fundamentals, threatening the financial stability of the Union, a number of measures were adopted, some of them outside the framework of the Union.

- (4) Firstly, a European Financial Stabilisation Mechanism ('EFSM') through which the Union could provide financial assistance to Member States was established in 2010. That mechanism allowed the Union to respond in a coordinated, rapid and active manner to acute difficulties in a particular Member State but with a limited financial capacity and on a purely temporary basis.
- (5) Secondly, in 2010, the Member States whose currency is the euro also established among themselves the European Financial Stability Facility ('EFSF'), on a temporary basis. The EFSF has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed by the EFSF through the issuance of bonds and other debt instruments on capital markets. The EFSF does not provide any further financial assistance, as this task is currently performed solely by the European Stability Mechanism ('ESM').
- (6) Thirdly, on 17 December 2010, the European Council agreed on the need for Member States whose currency is the euro to establish a permanent stability mechanism replacing the EFSF for granting possible new financial support.
- (7) The ESM was established as an international financial institution by the Treaty establishing the European Stability Mechanism of 2 February 2012, concluded outside the framework of the Union. The ESM assumed the EFSF's task of providing financial assistance to Member States whose currency is the euro and became operational in October 2012.
- (8) Over the years, the ESM has proven decisive in helping to preserve the financial stability of the euro area. It has done so by providing additional financial support to euro area Member States in distress. Its transformation into a European Monetary Fund ('EMF') will further strengthen its institutional anchoring. It will help to create new synergies within the EU framework, notably in terms of transparency, efficiency of the EU financial resources and legal review, thus offering a better support to Member States. It will also help improve further cooperation with the Commission and accountability to the European Parliament. This will be done without affecting the way in which national governments are held to account by their own national Parliaments and preserving the ESM commitments.
- (9) The integration of the ESM into the Union framework by establishing the EMF also contributes to increasing transparency and accountability in the

economic and monetary union ('EMU'). At the height of the crisis, far-reaching decisions for Member States whose currency is the euro and for their citizens were taken. The pivotal role which the ESM played in providing financial stability subject to strict conditionality justifies its integration into the Union framework so as to ensure more dialogue, mutual trust and greater democratic accountability and legitimacy in the decision-making processes of the Union. The EMF should thus be accountable to the European parliament and to the Council.

- (10) To enhance the democratic control by the European Parliament, the EMF should report annually on the execution of its tasks. The Parliament should be entitled to pose oral and written questions and to organise hearings. Given the sensitive nature of the activities of the EMF and their impact on financial markets, it should be possible for the Parliament to organise confidential oral discussions with the EMF's Managing Director on the progress made in relation to the process of providing or implementing financial stability support to an EMF Member as well as with respect to the provision of financial support to the Single Resolution Board ('SRB').
- (11) For reasons of transparency and democratic control, national Parliaments should have rights to obtain information about the activities of, and to engage in a dialogue with the EMF. The national Parliament of an EMF Member should be able to invite the Managing Director to participate in a discussion in relation to progress made on the implementation of a financial stability support operation in view of the impact of such a measure on the EMF Member concerned. Such an exchange of views could help foster understanding between the EMF and the EMF Member concerned.
- (12) The TEU and the TFEU have not provided the necessary powers, in the form of a specific legal basis, to establish a permanent Union body in charge of providing financial support for ensuring the financial stability of the euro area and of the Member States whose currency is not the euro but which participate in the Banking Union.
- (13) In absence of such a specific legal basis, the Council, with the consent of the European Parliament, is allowed to establish an EMF as a measure that is necessary to attain one of the objectives set out in the Treaties within the meaning of Article 352 TFEU.
- (14) Given the strong interconnections between Member States whose currency is the euro, severe risks to the financial stability of those Member States could put at risk the financial stability of the euro area as a whole. Therefore, the EMF should provide financial stability support to Member States whose

currency is the euro where it is indispensable to safeguard the financial stability of the euro area or its Member States.

- (15) Action by the Union is hence necessary to attain the objectives of establishing an economic and monetary union whose currency is the Union in accordance with Article 3(4) TEU, and of securing a sustainable development of Europe based on balanced economic growth and price stability, and a highly competitive social market economy, aiming at full employment and social progress in accordance with Article 3(3) TEU. More concretely, safeguarding the financial stability of the euro area, of the Member States whose currency is the euro, and of the Member States whose currency is not the euro that participate in the Banking Union aims at achieving a deeper, fairer and more resilient economic and monetary union.
- (16) Since the objectives of this Regulation cannot be sufficiently achieved by the Member States acting individually but can therefore, by reason of the scale of the action, be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 TEU.
- (17) The EMF should be established, pursuant to Union law, as a Union body with legal personality.
- (18) The EMF should be governed by this Regulation and the Statute of the EMF, which forms an integral part of it. The Statute of the EMF should contain the relevant provisions on the legal status, membership, objectives and tasks of the EMF, its organisation and internal decision-making, the EMF's lending capacity and capital, the rules governing the provision of stability support to Member States whose currency is the euro and the EMF's support to the SRB, the rules related to the EMF's financial provisions and financial management, and the transitional arrangements governing the payment of new EMF Members initial capital and the rules regarding the temporary correction of the EMF contribution key and a number of general provisions.
- (19) In order to ensure a seamless continuation of activities and the required legal certainty, the EMF should replace the ESM succeeding it in its legal position, including in all its rights and obligations.
- (20) The succession of the EMF to the ESM does not create any new financial obligations for Member States whose currency is the euro as regards their contribution to the authorised capital stock of the EMF, which they have already subscribed.

- (21) Given the legal nature of the ESM as an international financial institution based on an international agreement between the Member States whose currency is the euro, the Board of Governors, as the highest decision-making body of the ESM representing the Contracting Parties to the ESM Treaty, should give its prior consent to such succession and transfer of the subscribed capital. The succession should be completed upon the entry into force of this Regulation and the consent of the ESM, whichever is the latest.
- (22) All Member States whose currency is the euro and which are currently Contracting Parties to the ESM Treaty should be members of the EMF at the moment of the entry into force of this Regulation. As a consequence of adopting the euro, a Member State should become an EMF Member with full rights and obligations, in line with those of the existing EMF Members.
- (23) The rights of a new EMF Member under this Regulation, including voting rights, should be conditional upon subscription of their contribution to the authorised capital stock.
- (24) Transitional rules, similar to those provided for in the ESM Treaty, should be enshrined as regards new EMF Members which adopt the euro after the entry into force of this Regulation. It should be possible for those Members to pay-in the contribution to the EMF's capital in instalments. Those new EMF Members whose GDP per capita is below 75 percent of the Union GDP per capita in the year preceding its entry into the EMF should benefit from a temporary correction of the contribution key for paying in capital of the EMF. In such a case, the temporary correction should apply for a period of twelve years.
- (25) The stability support provided for by the EMF should be subject to strict policy conditions. Such conditions should be appropriate to the financial assistance instrument chosen.
- (26) The policy conditions attached to the financial assistance facility should be defined in a memorandum of understanding ('MoU') and should be fully consistent with any of the measures of economic policy coordination adopted on the basis of the TFEU. A social impact assessment should inform the negotiation of the MoU and guide the follow-up and monitoring of its implementation.

- (27) The Single Supervisory Mechanism ('SSM') established by Council Regulation (EU) No 1024/2013²³ and the Single Resolution Mechanism ('SRM') established by Regulation No 806/2014 of the European Parliament and of the Council²⁴ were created in response to the crisis, as steps towards a Banking Union, to cover the Member States whose currency is the euro and those Member States whose currency is not the euro but choose to participate in the SSM (the 'participating Member States') in accordance with Article 7 of Regulation (EU) No 1024/2013, making them subject to the supervisory powers of the ECB and the resolution powers of the SRB in relation to their credit institutions.
- (28) Supervisory control and resolution operations at Union level underpin the establishment of a Banking Union. The EMF should hence provide financial support to the SRB, the central resolution authority established by Regulation No 806/2014 by means of credit lines or guarantees for the tasks which the SRB executes or will execute in relation to credit institutions within the Banking Union.
- (29) As part of the creation of the SRM, the Single Resolution Fund ('SRF') was established. It is financed by bank contributions raised at national level and pooled at Union level. Pursuant to Article 74 of Regulation No 806/2014, the SRB can contract for the SRF public financial arrangements of additional financial means to be used where the ex-ante and ex-post contributions are not sufficient to meet the Funds' obligations.
- (30) The EMF should have sufficient financial means to carry out its duties effectively. Given the Union's limited own resources, EMF Members should provide the necessary means in exchange for the rights provided in this Regulation. This should be reflected in appropriate governance arrangements and voting rules ensuring Members' sufficient oversight over the use of the funds that they provide.
- (31) In view of the EMF's specific financial structure, the voting rights of each EMF Member should reflect the weight of their individual financial contribution to the EMF. The decision making within the EMF's governance bodies should therefore take place in accordance with voting rules that build

²³ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

²⁴ Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225, 30.7.2014, p. 1).

upon those already existing in the ESM Treaty, to ensure to the largest extent possible a continuity of existing voting practice.

- (32) Insofar as Member States whose currency is not the euro participate in the Banking Union, their representatives should participate in the meetings of the Board of Governors for any discussions as regards the use of credit lines or guarantees in support of the SRB.
- (33) The Board of Governors and the Board of Directors should be able to establish permanent or ad hoc committees or subsidiary bodies as they consider necessary or appropriate to advise or otherwise assist them or the Managing Director in the performance of their respective duties. Rules on their tasks, composition and operation should be defined internally. Such committees or subsidiary bodies should not have any decision-making powers.
- (34) Following established case-law, decisions taken within the framework of the EMF relating to economic policy and involving a considerable degree of discretion should only be taken with approval and under the responsibility of the Union institutions. In line with the powers enshrined in the Treaties for the coordination of the economic policies of the Member States and with other acts of secondary Union law, the power to approve such decisions pursuant to Article 291 TFEU should be conferred upon the Council.
- (35) As regards the instruments aimed at granting stability support to EMF Members, the present Regulation is adopted pursuant to Article 352 TFEU as a necessary measure complementing the powers laid down by the Treaty provisions specific to Member States whose currency is the euro (Articles 136 to 138 TFEU). According to those provisions, for Council measures only the members representing Member States whose currency is the euro take part in the vote. For those instruments, this Regulation exclusively concerns the use of resources made available by the Member States whose currency is the euro for the sole benefit of those Member States, with a view to guaranteeing stability in the euro area. In consequence, for decisions of the Council to approve the acts referred to in the previous recital the votes of non-euro area Member States should be suspended and only members of the Council representing Member States whose currency is the euro should take part in the vote.
- (36) An emergency procedure should be established for the Council to endorse or object to decisions of the EMF governing bodies where the urgent provision of financial stability support to EMF Members is required. In such a case, the Chairperson of the Board of Governors should be able to request the Council

to endorse or object to a decision within 24 hours from the transmission of the decision. The emergency procedure could be used for the approval of the financial terms and conditions and the financial assistance facility agreements regarding support to the SRB by means of credit lines or guarantees of the EMF.

- (37) The Board of Governors should be entitled to adopt Rules of Procedure governing the practical aspects of the EMF's operations. Those Rules of Procedure should replace the ESM By-laws and the rules of procedure of the Board of Governors and Board of Directors.
- (38) The lending capacity of the EMF should be no less than EUR 500 000 million. That amount reflects the current lending capacity of the ESM. The Board of Governors should be able to increase the lending capacity, if it deems that such a review is appropriate for enabling the EMF to pursue its objectives and related tasks. Since such a decision has a significant financial impact for EMF Members, it should be taken unanimously by the Board of Governors. In duly justified exceptional cases, the Board of Governors may also provisionally decrease the lending capacity if this is needed to ensure the ability of the EMF to fulfil its functions.
- (39) At inception, the EMF's initial authorised capital stock should reflect the authorised capital stock of the ESM. Member States whose currency is the euro should be the sole subscribers of the EMF's authorised capital stock, which should amount to EUR 704 798.7 million, to be divided in equal shares. The liability of an EMF Member should be limited to its portion of the authorised capital stock. EMF Members should not be liable for the obligations of the EMF. The Union budget should not be liable for expenses or losses of the EMF.
- (40) The Board of Governors should be able to increase the capital of the initial authorised capital stock if it deems such an increase appropriate for enabling the EMF to pursue its objectives and tasks. The ensuing capital and shares between the EMF Members should be published in the Official Journal of the European Union.
- (41) Like the ESM, the EMF should provide stability support to its Members when their regular access to market financing is impaired or is at risk of being impaired.
- (42) The EMF should be involved in the negotiation and signing of the MoU in view of the importance of the conditionality attached to the financial

assistance for contributing to ensuring the repayment of EMF financial assistance.

- (43) The range of financial instruments currently available for the ESM should also be available for the EMF, including the possibility to provide precautionary financial assistance, financial assistance for the recapitalisation of credit institutions in an EMF Member, the direct recapitalisation of credit institutions in an EMF Member, the provision of loans, and the purchasing bonds of an EMF Member on the primary and secondary markets.
- (44) The objective of financial stability support in the form of precautionary financial assistance is to support sound policies and prevent crisis situations, allowing EMF Members the possibility to access EMF assistance before they face major difficulties raising funds in the capital markets. Precautionary financial assistance aims at helping EMF Members whose economic conditions are still sound to maintain continuous access to market financing by reinforcing the credibility of their macroeconomic performance while ensuring an adequate safety-net.
- (45) Financial assistance to EMF Members in the form of a loan to recapitalise beneficiary credit institutions should address cases where financial or economic distress is linked to the financial sector and not directly related to fiscal or structural policies. Therefore, financial assistance for the purpose of recapitalising financial institutions should be granted to an EMF Member outside the framework of a macroeconomic adjustment programme.
- (46) The instrument of direct recapitalisation of credit institutions aims at preserving the financial stability of the euro area as a whole and of its Member States by catering for those specific cases in which an EMF Member experiences severe difficulties with its financial sector that cannot be remedied without significantly endangering its fiscal sustainability due to a severe risk of contagion from the financial sector to the sovereign. The use of that instrument could also be considered if other alternatives would have the effect of endangering the continuous market access of an EMF Member. As far as the use of the instrument of an EMF loan for the recapitalisation of financial institutions is not possible, such financial assistance seeks to help remove the risk of contagion from the financial sector to the sovereign by allowing for the direct recapitalisation of institutions, thereby reducing the risks of a vicious circle between a fragile financial sector and a deteriorating creditworthiness of the sovereign.
- (47) There should be financial stability support in the form of loans to assist EMF Members that have significant financing needs but have to a large extent lost

access to market financing, either because they cannot find lenders or because lenders will only provide financing at excessive prices that would adversely impact the sustainability of public finances.

- (48) In the same way as ESM loans, future EMF loans and outstanding ESM loans should enjoy preferred creditor status in a similar fashion to those of the International Monetary Fund ('IMF'). However, they should rank second after IMF loans. That status should be effective as of the date of entry into force of this Regulation.
- (49) In order for EMF Members to maintain or restore their market access, the EMF should be able to engage in purchases on the primary market of bonds or other debt securities issued by EMF Members under the primary market support facility, in addition to regular loans under a macroeconomic adjustment programme or to draw-downs of funds under the precautionary financial assistance instrument.
- (50) The EMF should be able to buy bonds of an EMF Member on the secondary market. The secondary market support facility should aim at supporting the good functioning of the government debt markets of EMF Members in exceptional circumstances where the lack of market liquidity threatens financial stability, with a risk of pushing sovereign interest rates towards unsustainable levels and creating refinancing problems for the banking system of the EMF Member concerned. An EMF secondary market intervention should enable market making that would ensure some debt market liquidity and incentivise investors to further participate in the financing of EMF Members.
- (51) The Member States whose currency is the euro should support equivalent creditor status of the EMF and that of other Member States lending bilaterally in coordination with the EMF.
- (52) This Regulation should not affect the commitment agreed between the Contracting Parties to the Treaty establishing the ESM pursuant to Article 12(3) of that Treaty, namely that collective action clauses must be included in all new euro area government securities, with a maturity above one year, in a way which ensures that their legal impact is identical.
- (53) Support to the SRB, through credit lines or guarantees, should be made available in situations where the amounts raised under Article 70 of Regulation (EU) No 806/2014 are not sufficient to cover the losses, costs or other expenses incurred by the use of the SRF in relation to resolution actions

and where the extraordinary ex-post contributions provided for in Article 71 of Regulation (EU) No 806/2014 are not immediately accessible.

- (54) In order to ensure appropriate equivalent treatment within the Banking Union, participating Member States whose currency is not the euro should offer to the SRB, in parallel to the EMF, credit lines or guarantees on equivalent terms and conditions as those of the EMF.
- (55) Other Member States whose currency is not the euro should provide for credit lines or guarantees when notifying to the other Member States, the Commission, the ECB, and European Banking Authority the request to enter into a close cooperation with the ECB in relation to the exercise of tasks conferred to it pursuant to Council Regulation (EU) No 1024/2013, subject to the adoption of the ECB decision.
- (56) From 1 January 2024 the resources in the SRF will be fully mutualised. From that date, Regulation (EU) No 806/2014 stipulates that banks in all Member States participating in the Banking Union are to contribute to the SRF and provide extraordinary ex post contributions to repay borrowings from third parties, in line with a key established on the basis of their size and risk profile. As the support to the SRB is intended to complement the SRF's resources, the same key, applied to the level of the Member States whose currency is not the euro participating in the Banking Union and the EMF should be the basis for determining their respective participation in the support to be provided.
- (57) The Board of Governors should adopt the applicable financial terms and conditions for the set-up of the backstop by the EMF. With a view to ensuring their appropriate involvement, the EMF and the participating Member States whose currency is not the euro should agree to the financial terms and conditions attached to the credit lines or guarantees to be provided to the SRB as well as the overall ceiling applicable, which should be revised proportionally when a Member State whose currency is not the euro joins the Banking Union.
- (58) The Managing Director should have the authority to decide, within 12 hours from the reception of the SRB's request, on the drawdown of the credit line or the provision of guarantees on the liabilities of the SRB.
- (59) In order to ensure the immediate availability of additional financial means to the SRF, the SRB should be able to issue a request for support prior to the adoption of a specific resolution scheme. That should be done in consultation with the Commission, in accordance with the procedure under Article 18 of Regulation (EU) No 806/2014. For decisions related to resolution schemes,

the decision of the Managing Director should take effect only once a resolution scheme enters into force in accordance with Article 18 of that Regulation. The sequencing of the request and of the decision should not add to the existing timeline of the resolution procedure as established in Article 18 of Regulation (EU) No 806/2014.

- (60) The Managing Director's decision regarding disbursement of funds or the granting of guarantees should only be contingent on the SRB conducting its activities pursuant to Regulation (EU) 806/2014, including the applicable bail-in rules. No further conditions should apply.
- (61) In order to ensure that the EMF continues to be able to provide financial support to its Members when needed, the amount available for the purposes of support to the SRB should be subject to a ceiling of EUR 60 000 million. However, the EMF should be able to respond flexibly to unforeseen funding needs arising from resolution operations. Therefore, the Board of Governors should have the power to increase the ceiling accordingly.
- (62) Any financial support provided to the SRB by the EMF and any financial support being provided by participating Member States whose currency is not the euro should be fully repaid by the SRB from its own resources, including contributions from the industry.
- (63) Appropriate rules should be laid down as regards the budget of the EMF and the internal and external audit of its accounts. The EMF's financial statements and accounts should be audited and certified by independent external auditors since the EMF's is an actor in the financial markets. In addition, there should be an independent Board of Auditors which tasks should be to inspect and audit the EMF's accounts, and ensure compliance, performance and correct risk management of the EMF. It should also monitor and review the EMF's internal and external audit review processes.
- (64) The powers of the independent external auditors and the Board of Auditors are without prejudice to the powers of the European Court of Auditors pursuant to Article 287 TFEU.
- (65) Protocol No 7 on the Privileges and Immunities of the European Union annexed to the TEU and the TFUE should be applicable to the EMF. The Chairperson of the Board of Governors and in particular the Governors, alternate Governors, the Directors, and alternate Directors should, as representatives of EMF Members, enjoy the privileges and immunities granted by virtue of Article 10 of that Protocol.

- (66) To enable the EMF to fulfil the tasks currently performed by the ESM as well as its new tasks, transitional measures should be laid down, in particular with regard to the Managing Director, the Management Board and staff which are currently employed under a contract with the ESM. This should also include nationals of third countries which are currently employed by the ESM. The existing contractual arrangements should continue to apply to staff employed by the ESM before the entry into force of this Regulation. Staff joining the EMF, after the entry force of this Regulation, shall be subject to the Staff Regulations, the Conditions of Employment of Other Servants and the rules of application.
- (67) In order to preserve the confidentiality of the work of the EMF, the members of its governing bodies and its staff, including the staff exchanged with or seconded by EMF Members for the purpose of carrying out the EMF's tasks, should be subject to requirements of professional secrecy, even after their duties have ceased. A code of conduct should be established in that respect.
- (68) The obligation of confidentiality should also apply to observers invited to attend the meetings of the Board of Governors and to participants in such meetings of participating Member States whose currency is not the euro. For the purpose of performing the tasks conferred to it by this Regulation, the EMF should be authorised, subject to conditions, to exchange information with its Members, other Union authorities and bodies as well as with certain national authorities.
- (69) For the purpose of fulfilling its objectives, the EMF should cooperate with Union institutions and other bodies, offices or agencies as well as with third States which provide financial assistance to an EMF Member. The EMF should also be entitled to cooperate with international organisations or entities having special responsibilities in fields related to the EMF's activities. This includes amongst others, the IMF and central banks.
- (70) The EMF should be subject to the Union rules on public access to documents. When assessing the grounds for refusing access to a document set out in Article 4 of Regulation (EC) No 1049/2001 of the European Parliament and of the Council²⁵, the EMF should duly take into account the need to protect the confidentiality of the proceedings of the Board of Governors, the Board of Directors, any of their respective committees, the Management Board and the Board of Auditors, the internal finances of the EMF and the stability of the financial system in the euro area, of an EMF Member, or of a participating Member State as defined by Article 2 of Council Regulation (EU) No

²⁵ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

1024/2013, and also of the international, financial, monetary or economic relations.

- (71) In the future, the EMF could also be conferred new financial instruments, e.g. to support policy initiatives related to the establishment of a stabilisation function. A stabilisation function is intended to attenuate the effects of large asymmetric shocks. To this effect, it would rapidly activate countercyclical resources in an automatic way, subject to eligibility criteria defined in advance. The EMF could support the implementation of such a function by means of organising and making available any necessary market financing associated with the triggering of the function.
- (72) A possible form of such support by the EMF to a stabilisation function would be that upon activation the EMF would provide loans to the beneficiary EMF Member. The loans provided by the EMF could be provided without conditionality while the activation of the stabilisation function itself would be made subject to the adherence of pre-defined eligibility criteria,

HAS ADOPTED THIS REGULATION:

PART I

THE EUROPEAN MONETARY FUND

Article 1

Establishment

1. This Regulation establishes the European Monetary Fund ("EMF").
2. The Statute of the EMF is set out in the Annex to this Regulation and forms an integral part thereof.

Article 2

Succession to and replacement of the European Stability Mechanism

1. The EMF shall succeed to and replace the European Stability Mechanism ("ESM"), including its legal position and assuming all its rights and obligations. The process shall be completed upon the entry into force of this Regulation or upon the consent of the ESM, whichever is the latest.

2. All existing appointments and mandates in the ESM shall be maintained for the remaining period of their terms of office, within the framework of the EMF.

PART II

ROLE OF THE COUNCIL AND ACCOUNTABILITY

Title I

Role of the Council

Article 3

Role of the Council

1. Decisions taken by the Board of Governors pursuant to Article 8(6), Article 9(1), Article 10, Article 11(4), Article 11(5), Article 11(6), Article 13(2), Article 13(4), Article 14(1), Article 14(2), Article 15(1), Article 15(2), Article 19(1), Article 19(4), Article 16(1), Article 16(2), Article 17(1), Article 17(2), Article 18(1), Article 18(3), Article 22(4), Article 22(5), and Article 23(1) of the Statute of the EMF, decisions taken by the Board of Governors regarding financial assistance facility agreements pursuant to Article 13(3) of the Statute of the EMF, and decisions taken by the Board of Directors pursuant to Article 9(2), Article 14(4), Article 15(4), Article 19(5), Article 16(4), Article 17(4), Article 18(5), and Article 23(3) of the Statute of the EMF, shall be transmitted to the Council immediately after their adoption, together with the reasons on which they are based. They may enter into force only if they are approved by the Council.

2. Where circumstances require the urgent provision of stability support to an EMF Member in accordance with Article 16, decisions may be taken by an emergency procedure. In such an event, the decision taken by the Board of Governors or the Board of Directors shall be transmitted to the Council immediately after its adoption together with the reasons on which it is based. Upon request of the Chairperson, the Council shall discuss the decision, within 24 hours of its transmission. The Council may object to the decision. In the event of an objection, the Council may itself adopt another decision on the matter, or refer the matter back to the Board of Governors for another decision.

The emergency procedure may also be used by the Board of Governors for the decision pursuant to Article 22(4) and (5), and Article 23(1).

3. The Council shall provide reasons for the exercise of its powers referred to in paragraph 1 where it does not approve a decision or the exercise of its powers referred

to in paragraph 2 where it objects to a decision. Any new decision that the Board of Governors or the Board of Directors may take on the same subject matter shall respect the reasons given by the Council.

4. Where the Council acts in accordance with paragraphs 1 or 2, and with the exception of decisions taken pursuant to Article 22 to 23 of this Statute, the votes of members of the Council representing Member States whose currency is not the euro shall be suspended. A qualified majority shall be defined in accordance with Article 238(3) TFEU. The Chairperson of the Board of the Governors may attend the meetings of the Council.

Article 4

Publication

Decisions taken by the Board of Governors and approved by the Council pursuant to Article 3(1) shall be published in the *Official Journal of the European Union*.

Title II

Accountability

Article 5

Accountability towards the European Parliament and the Council

1. The EMF shall be accountable to the European Parliament and to the Council for the execution of its tasks.
2. The EMF shall submit on an annual basis to the European Parliament, to the Council, and to the Commission a report on the execution of its tasks, together with its annual accounts and its financial statement. The Managing Director shall present those documents to the European Parliament and to the Council, both of which may hold a general debate on that basis.
3. The Managing Director may, at the request of the European Parliament or on his or her own initiative, be heard by the competent committees of the European Parliament on the execution of the EMF's tasks.
4. The EMF shall reply orally or in writing to questions put to it by the European Parliament or by the Council in accordance with the EMF's own procedures.

5. Upon request, the Managing Director shall hold confidential oral discussions behind closed doors with the Chair and Vice-Chairs of the competent committees of the European Parliament concerning its tasks, including the social impact assessment, the implementation of financial stability support and the provision of credit lines or setting of guarantees in support of the SRB. An agreement shall be concluded between the European Parliament and the EMF outlining detailed arrangements for organising such discussions, with a view to ensuring full confidentiality.

Article 6

Accountability towards National Parliaments

1. When submitting the report provided for in Article 5(2), the EMF shall simultaneously forward it directly to the national Parliaments of the EMF Members and of the participating Member States as defined in Article 2 of Regulation (EU) No 1024/2013. National Parliaments may address their reasoned observations on that report to the EMF.

2. National Parliaments of the Member States referred to in paragraph 1 may request the EMF to reply in writing to any observations or questions submitted by them to the EMF in respect of the tasks of the EMF.

3. The national Parliament of an EMF Member may invite the Managing Director to participate in an exchange of views in relation to the progress made regarding the implementation of the financial stability support.

PART III

FINAL PROVISIONS

Article 7

References in Union law

References to the European Stability Mechanism or ESM in acts of Union law shall be construed as references to the European Monetary Fund or EMF.

Article 8

Entry into force

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council

The President

ANNEX TO THE PROPOSAL FOR A COUNCIL REGULATION ON THE ESTABLISHMENT OF THE EUROPEAN MONETARY FUND

COM(2017) 827 final, 06.12.2017 (Annex)

STATUTE OF THE EUROPEAN MONETARY FUND

PART I

MEMBERSHIP AND SCOPE

Article 1

Legal Status of the EMF

The EMF shall have legal personality. It shall enjoy in all the Member States the most extensive legal capacity accorded to legal persons under their laws. It may, in particular, acquire and dispose of movable and immovable property and may be a party to legal proceedings.

Article 2

Membership

1. Members of the EMF shall be the Member States whose currency is the euro.
2. A Member State whose currency is not the euro shall become an EMF Member as from the date of entry into force of the decision of the Council in accordance with Article 140 (2) TFEU abrogating its derogation from adopting the euro. It shall become an EMF Member on the same terms and conditions as existing EMF Members.
3. The exercise by EMF Members of all the rights granted by this Regulation, including voting rights, shall be conditional upon the subscription of their contribution to the authorised capital stock.
4. A new member of the EMF shall receive shares in the EMF in exchange for its capital contribution, calculated in accordance with the contribution key provided for in Article 14.

Article 3

Objective and tasks

1. The EMF shall contribute to safeguarding the financial stability of the euro area, as well as the financial stability of the 'participating Member States' within the meaning of Article 2 of Regulation (EU) No 1024/2013.

2. To achieve its objective, the EMF shall:

(a) mobilise funding and provide stability support under strict policy conditions, appropriate to the financial assistance instrument chosen, to the benefit of its Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole or of its Members;

(b) provide credit lines or set guarantees in support of the Single Resolution Board ('the SRB') established in accordance with Regulation (EU) No 806/2014 for any task assigned to it.

PART II

ORGANISATION AND DECISION-MAKING

Article 4

Structure and voting rules

1. The EMF shall have a Board of Governors and a Board of Directors, as well as a Managing Director and other staff as may be considered necessary. Governors, Directors, and their respective alternates shall perform their duties without remuneration from the EMF.

2. The decisions of the Board of Governors and the Board of Directors shall be taken by unanimity, reinforced qualified majority, qualified majority or simple majority as specified in this Regulation. In respect of all decisions, a quorum of two thirds of the EMF Members with voting rights representing at least two thirds of the voting rights must be present.

3. Abstentions by members present in person or represented shall not prevent the adoption of a decision requiring unanimity.

4. The adoption of a decision by reinforced qualified majority requires 85% of the votes cast.
5. The adoption of a decision by qualified majority requires 80 % of the votes cast.
6. The adoption of a decision by simple majority requires a majority of the votes cast.
7. The voting rights of each EMF Member, as exercised by its representative on the Board of Governors or Board of Directors, shall be equal to the number of shares allocated to it in the authorised capital stock of the EMF.
8. If any EMF Member fails to pay any part of the amount due in respect of its obligations in relation to paid-in shares or calls of capital under Articles 8, 9 and 10 of this Statute, or in relation to the reimbursement of the financial assistance under Article 16 or 17 of this Statute, the voting rights of that EMF Member shall be suspended for so long as such failure continues. The voting thresholds shall be recalculated accordingly.

Article 5

Board of Governors

1. Each EMF Member shall appoint a Governor and an alternate Governor. Such appointments shall be revocable at any time. The Governor shall be a member of the government of that EMF Member who has responsibility for financial affairs. The alternate Governor shall have full power to act on behalf of the Governor when the latter is not present.
2. The Chairperson of the Board of Governors ('the Chairperson') shall be the President of the Euro Group, as referred to in Protocol No 14 on the Euro Group annexed to the TEU and to the TFEU. The Board of Governors shall elect a Vice-Chairperson from among its members for a term of two years. The Vice-Chairperson may be re-elected. A new election shall be organised without delay if the incumbent no longer meets the requirement laid down in paragraph 1.
3. A Member of the Commission and the President of the European Central Bank ('ECB') shall participate in the meetings of the Board of Governors as non-voting members.
4. Representatives of Member States whose currency is not the euro participating on an *ad hoc* basis alongside the EMF in a stability support operation for a Member State whose currency is the euro shall also be invited to participate, as observers, in the

meetings of the Board of Governors where that stability support and its monitoring are to be discussed

5. Other persons, including representatives of Member States whose currency is not the euro for purposes other than those referred to in paragraph 4, institutions or organisations may be invited by the Board of Governors to attend meetings as observers on an *ad hoc* basis.

6. The Board of Governors shall take the following decisions provided for in this Statute by unanimity:

- (a) increase or decrease the minimum lending capacity in accordance with Article 8(6).
- (b) make capital calls, in accordance with Article 9(1);
- (c) increase the authorised capital stock in accordance with Article 10(1);
- (d) take into account a possible update of the key for the subscription of the ECB capital and the changes to be made to the contribution key for the subscription of the EMF authorised capital stock in accordance with Article 11(4);
- (e) approve changes to be made to the distribution of capital among EMF Members and the calculation of such a distribution as a direct consequence of a Member State becoming a new EMF Member, in accordance with Article 11(3);
- (f) confirm or revise the terms and conditions for the provision of credit lines or the setting of guarantees in support of the SRB and decide to increase the ceiling for support to the SRB, in accordance with Article 22(5);
- (g) adopt the financial terms and conditions for the provision of credit lines or the setting of a ceiling for guarantees in support of the SRB, in accordance with Articles 22(5) and 23(1).

7. The Board of Governors shall take the following decisions provided for in this Statute by reinforced qualified majority:

- (a) provide stability support to EMF Members, including the policy conditions as stated in the memorandum of understanding referred to in Article 13(3), and to establish the choice of instruments and the financial terms and conditions, in accordance with Articles 14 to 18;

- (b) request the Commission to negotiate, in liaison with the ECB, the economic policy conditions attached to each financial assistance, in accordance with Article 13(3);
- (c) change the pricing policy and pricing guideline for financial assistance, in accordance with Article 20.

8. The Board of Governors shall take the following decisions provided for in this Statute by qualified majority:

- (a) set out the detailed technical terms when a Member State becomes a EMF Member;
- (b) elect its Vice-Chairperson, in accordance with paragraph 2 of this Article;
- (c) determine the list of activities incompatible with the duties of a Director or an alternate Director, in accordance with Article 6(8);
- (d) adopt the shortlist of candidates for the position of the Managing Director and request the Court of Justice for the removal of the latter, in accordance with Article 7;
- (e) set out the rules of procedure of the EMF;
- (f) establish other funds, in accordance with Article 27;
- (g) decide on the actions to be taken for recovering a debt from an EMF Member, in accordance with Article 28 (2) and (3);
- (h) approve the annual accounts and annual report of the EMF, in accordance with Articles 31 and 32, respectively;
- (i) approve the external auditors, in accordance with Article 34;
- (j) appoint the members of the Board of Auditors, in accordance with Article 35(1);
- (k) decide on the working language of the EMF in accordance with Article 47.

9. The Chairperson shall convene and preside over the meetings of the Board of Governors. The Vice-Chairperson shall preside over those meetings when the Chairperson is unable to participate.

Article 6

Board of Directors

1. Each Governor shall appoint one Director and one alternate Director from among people of high competence in economic and financial matters. Such appointments shall be revocable at any time. The alternate Directors shall have full power to act on behalf of the Director when the latter is not present.

Each Director and alternate Director shall devote the time and attention to the activities of the EMF as so required. While holding office at the EMF, and for a period of six months after no longer holding office, a Director or alternate Director may not engage in the activities determined by the Board of Governors in accordance with paragraph 8.

2. The Commission may appoint one non-voting member. The ECB may appoint one observer.

3. A representative of each Member State whose currency is not the euro participating on an *ad hoc* basis alongside the EMF in a financial stability support and assistance operation for a Member State whose currency is the euro shall also be invited to participate, as observers, in the meetings of the Board of Directors when that financial assistance and its monitoring are to be discussed.

4. Other persons, including representatives of Member States whose currency is not the euro for purposes other than those referred to in paragraph 3 of this Article, institutions or organisations, may be invited by the Board of Governors to attend meetings as observers on an *ad hoc* basis.

5. The Board of Directors shall take decisions by qualified majority, unless otherwise provided for in this Statute.

6. Without prejudice to the powers of the Board of Governors as set out in Article 5, the Board of Directors shall ensure that the EMF is run in accordance with this Regulation and the rules of procedure of the EMF.

7. Any vacancy in the Board of Directors shall be immediately filled in accordance with paragraph 1.

8. The Board of Governors shall lay down what activities are incompatible with the duties of a Director or an alternate Director.

Article 7

Managing Director

1. The Managing Director shall be appointed by the Council on the basis of merit from among candidates having the nationality of an EMF Member, relevant international experience and a high level of skills, knowledge and competence in economic and financial matters.

The Board of Governors shall draw up a shortlist of candidates for the position of Managing Director. It shall strive to respect the principle of gender balance.

The Council, after consulting the European Parliament, shall appoint the Managing Director. The Council shall act by qualified majority. Only members of the Council representing Member States whose currency is the euro shall vote.

The Managing Director shall be a full time position. In addition, he or she may exercise the role of Chief Executive Officer of the European Financial Stability Facility (EFSF). The Managing Director shall not hold another office at national, Union or international level and may not be a Governor or Director or an alternate of either.

2. The term of office of the Managing Director shall be five years. He or she may be re-appointed once. The Managing Director shall remain in office until his or her successor is appointed. If the Managing Director no longer fulfils the conditions required for the performance of his or her duties or has been found guilty of serious misconduct, the Court of Justice may, upon the request of the Board of Governors and after informing the European Parliament adopt a decision to remove him or her from office.

3. The Managing Director shall chair the meetings of the Board of Directors and shall participate in the meetings of the Board of Governors.

4. The Managing Director shall be chief of the staff of the EMF and shall be responsible for organising, appointing and dismissing staff in accordance with Article 39 of this Statute..

5. The Managing Director shall be the legal representative of the EMF.

Without prejudice to Article 13(4), Article 14(3), Article 15(3), Article 16(3), Article 17(3), Article 18(4) and Article 23(2) of this Statute, the EMF shall be validly represented in dealings with third parties as follows:

- (a) by the Managing Director or, in his or her absence, by any two members of the management board acting jointly, and
- (b) by any person acting within the limits of specific powers delegated by the Managing Director.

6. The Managing Director shall conduct, under the direction of the Board of Directors, the current business of the EMF and shall be assisted by a management board.

The management board shall consist of the Managing Director, who shall chair it, and such other members of the EMF's staff as the Managing Director shall designate from time to time.

CAPITAL AND LENDING CAPACITY

Article 8

Initial authorised capital stock and lending capacity

1. The initial authorised capital stock of the EMF shall be EUR 704 798.7 million. It shall be divided into seven million forty-seven thousand nine hundred and eighty-seven shares, having a nominal value of EUR 100 000 each, which shall be available for subscription through transfer of the capital of the ESM according to the initial contribution key provided for in table I and calculated in accordance with Article 11 of this Statute. The subscriptions to the initial authorised capital stock are set out in table II.

2. The initial authorised capital stock of the EMF shall be divided into paid-in shares and callable shares. The initial total aggregate nominal value of paid-in shares shall be EUR 80 548.4 million. Shares of authorised capital stock initially subscribed shall be issued at par. Other shares shall be issued at par.

3. Shares of authorised capital stock shall not be encumbered or pledged in any manner whatsoever and they shall not be transferable, with the exception of transfers for the purposes of implementing adjustments of the contribution key provided for in Article 11(5) of this Statute to the extent necessary to ensure that the distribution of shares corresponds to the adjusted key.

4. The liability of each EMF Member shall be limited, in all circumstances, to its portion of the authorised capital stock at its issue price. No EMF Member shall be liable, by reason of its membership, for obligations of the EMF. The obligations of

EMF Members to contribute to the authorised capital stock in accordance with this Regulation shall not be affected if any such EMF Member becomes eligible for, or is receiving, financial assistance from the EMF.

5. The Union budget shall not be held liable for the expenses or losses of the EMF.

6. The initial lending capacity of the EMF shall be no less than EUR 500 000 million. The sum of all financial commitments of the EMF shall not exceed the minimum lending capacity at any point in time. The Board of Governors may decide to increase the lending capacity. In duly justified exceptional cases, the Board of Governors may also provisionally decrease the lending capacity if this is needed to ensure the ability of the EMF to fulfil its functions.

Article 9

Capital calls

1. The Board of Governors may call in authorised unpaid capital at any time and set an appropriate period of time for its payment by the EMF Members.

2. The Board of Directors may call in authorised unpaid capital by simple majority decision to restore the level of paid-in capital if the amount of the latter is reduced by the absorption of losses below the level established in Article 8(2) of this Statute, as may be amended by the Board of Governors following the procedure provided for in Article 10 of this Statute, and set an appropriate period of time for its payment by the EMF Members.

3. The Managing Director shall call authorised unpaid capital in a timely manner if needed to avoid the EMF being in default of any scheduled or other payment obligation due to EMF creditors. The Managing Director shall inform the Board of Directors and the Board of Governors of any such call. When a potential shortfall in EMF funds is detected, the Managing Director shall make such capital call or calls as soon as possible with a view to ensuring that the EMF has sufficient funds to meet payments due to creditors in full on their due date. EMF Members shall irrevocably and unconditionally undertake to pay on demand any capital call made on them by the Managing Director pursuant to this paragraph, such demand to be paid within seven days of receipt.

4. The EMF Members shall meet all capital calls on a timely basis.

5. The Board of Directors shall adopt the detailed terms and conditions which shall apply to capital calls pursuant to this Article.

Article 10

Capital increases

1. The Board of Governors may decide to increase the authorised capital stock of the EMF provided for in Article 11. The new shares shall be allocated to the EMF Members according to the contribution key provided for in Article 11.

2. Upon a Member State becoming a new EMF Member, the authorised capital stock of the EMF shall be automatically increased by multiplying the respective amounts then prevailing by the ratio, within the adjusted contribution key provided for in Article 11 of this Statute, between the weighting of the new EMF Member and the weighting of the existing EMF Members.

Article 11

Contribution key

1. The contribution key for subscribing to EMF authorised capital stock by EMF Members which are Member States whose currency is the euro shall, subject to paragraphs 2 and 3, be based on the key for subscription, by the national central banks of EMF Members, of the ECB's capital pursuant to Article 29 of Protocol No 4 on the Statute of the European System of Central Banks and of the European Central Bank ('the ESCB Statute') annexed to the TEU and TFEU.

2. The initial contribution key for the subscription of the EMF authorised capital stock is set out in table I attached to this Statute.

3. The contribution key for the subscription of the EMF authorised capital stock shall be adjusted when:

- (a) a Member State becomes a new EMF Member and the EMF's authorised capital stock automatically increases; or
- (b) the twelve-year temporary correction applicable to an EMF Member established in accordance with Article 44 ends.

4. The Board of Governors may decide to take into account possible updates to the key for the subscription of the ECB's capital referred to in paragraph 1 when the contribution key is adjusted in accordance with paragraph 3.

5. When the contribution key for the subscription of the EMF authorised capital stock is adjusted, the EMF Members shall transfer among themselves authorised capital stock

to the extent necessary to ensure that the distribution of authorised capital stock corresponds to the adjusted key.

6. The Board of Directors shall take all other measures necessary to ensure the application of the provisions of this Article.

PART IV

STABILITY SUPPORT OPERATIONS OF THE EMF

Title I

Principles underlying stability operations of the EMF

Article 12

Principles

1. If indispensable to safeguard the financial stability of the euro area or of its Member States, the EMF may provide stability support through the instruments provided for in Articles 14 to 19 to an EMF Member subject to strict policy conditions, appropriate to the financial assistance instrument chosen. Such policy conditions may range from a macro-economic adjustment programme pursuant to Regulation (EU) No 472/2013 of the European Parliament and of the Council¹ to continuous respect of pre-established eligibility conditions.

2. The EMF, the Council, the Commission and the Member States shall fully observe Article 152 TFEU and shall take into account national rules and practice and Article 28 of the Charter of Fundamental Rights of the European Union. Accordingly, the application of this Regulation does not affect the right to negotiate, conclude and enforce collective agreements or to take collective action in accordance with national law.

¹ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

Title II

Financial stability support to EMF Members

Article 13

Procedure for granting stability support to EMF Members

1. An EMF Member may address a request for stability support to the Chairperson of the Board of Governors. Such a request shall indicate the financial assistance instrument or instruments to be considered. On receipt of such a request, the Chairperson of the Board of Governors shall request the Commission in liaison with the ECB, to carry out the following tasks:

- (a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States, unless the ECB has already submitted an analysis under Article 18(2) of this Statute;
- (b) to assess whether public debt is sustainable;
- (c) to assess the actual or potential financing needs of the EMF Member concerned.

2. On the basis of the request of the EMF Member and the assessment referred to in paragraph 1, the Board of Governors may decide to grant, in principle, stability support to the EMF Member concerned in the form of a financial assistance facility.

3. If a decision pursuant to paragraph 2 is adopted, the Board of Governors shall request the Commission, in liaison with the ECB, and in cooperation with the EMF, to negotiate, with the EMF Member concerned, a memorandum of understanding ('MoU') detailing the policy conditions attached to the financial assistance facility. The content of the MoU shall reflect the severity of the weaknesses to be addressed and the financial assistance instrument chosen. In parallel, the Managing Director shall prepare a proposal for a financial assistance facility agreement, including the financial terms and conditions and the choice of instruments, to be adopted by the Board of Governors.

The MoU shall be fully consistent with the measures of economic policy coordination provided for in the TFEU, in particular with any act of Union law, including any opinion, warning, recommendation or decision addressed to the EMF Member concerned and with the macroeconomic adjustment programme to be approved by the Council pursuant to Article 7(2) of Regulation (EU) No 472/2013. It shall be preceded by a social impact assessment.

4. The Commission and the EMF shall sign the MoU, subject to prior compliance with the requirements set out in paragraph 3 and approval by the Board of Governors.
5. The MoU shall be made public.
6. The Board of Directors shall approve the financial assistance facility agreement detailing the financial aspects of the stability support to be granted and, where applicable, the disbursement of the first tranche of the assistance.
7. The EMF shall establish an appropriate warning system to ensure that it receives any repayments due by the EMF Member under the stability support in a timely manner.
8. The Commission, in liaison with the ECB, shall monitor compliance with the policy conditions attached to the financial assistance facility.

Article 14

EMF precautionary financial assistance

1. The Board of Governors may decide to grant precautionary financial assistance in the form of a precautionary conditioned credit line or in the form of an enhanced conditions credit line in accordance with Article 12(1) of this Statute.
2. The policy conditions attached to the EMF precautionary financial assistance shall be detailed in the MoU, in accordance with Article 13(3).
3. The financial terms and conditions of the EMF precautionary financial assistance shall be specified in a precautionary financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing the EMF precautionary financial assistance.
5. The Board of Directors shall decide by reinforced qualified majority, on the basis of a proposal from the Managing Director and after having received a monitoring report from the Commission in accordance with Article 13(8), whether the credit line should be maintained.
6. After the EMF Member has drawn funds for the first time, via a loan or a primary market purchase, the Board of Directors shall decide by reinforced qualified majority, on the basis of a proposal from the Managing Director and following an assessment conducted by the Commission, in liaison with the ECB, whether the credit line continues to be adequate or whether another form of financial assistance is needed.

Article 15

Financial assistance for the re-capitalisation of credit institutions of an EMF Member

1. The Board of Governors may decide to grant financial assistance through loans to an EMF Member for the specific purpose of re-capitalising the credit institutions of that EMF Member.
2. The policy conditions attached to financial assistance for the re-capitalisation of an EMF Member's credit institutions shall be laid down in the MoU, in accordance with Article 13(3).
3. Without prejudice to Articles 107 and 108 TFEU, the financial terms and conditions of financial assistance for the re-capitalisation of an EMF Member's credit institutions shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing financial assistance for the re-capitalisation of an EMF Member's credit institutions.
5. Where applicable, the Board of Directors shall decide by reinforced qualified majority, on a proposal from the Managing Director and after having received a monitoring report from the Commission in accordance with Article 13(8), the disbursement of the tranches of the financial assistance subsequent to the first tranche.

Article 16

EMF loans

1. The Board of Governors may decide to grant financial assistance in the form of a loan to an EMF Member, in accordance with Article 12(1).
2. The policy conditions attached to the EMF loans shall be contained in a macro-economic adjustment programme detailed in the MoU, in accordance with Article 13(3).
3. The financial terms and conditions of each EMF loan shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.

4. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing EMF loans.

5. The Board of Directors shall decide by reinforced qualified majority, on a proposal from the Managing Director and after having received a monitoring report from the Commission in accordance with Article 13(8), the disbursement of the tranches of the financial assistance subsequent to the first tranche.

Article 17

Primary market support facility

1. The Board of Governors may decide to arrange for the purchase of bonds of an EMF Member on the primary market, in accordance with Article 12(1) and with the objective of maximising the cost efficiency of the financial assistance.

2. The policy conditions attached to the primary market support facility shall be detailed in the MoU, in accordance with Article 13(3).

3. The financial terms and conditions under which the bond purchase is conducted shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.

4. The Board of Directors shall adopt detailed guidelines on the procedure for implementing the primary market support facility.

5. The Board of Directors shall decide by reinforced qualified majority, on the basis of a proposal from the Managing Director and after having received a monitoring report from the Commission in accordance with Article 13(8), the disbursement of financial assistance to a beneficiary Member State through operations on the primary market.

Article 18

Secondary market support facility

1. The Board of Governors may decide to arrange for operations on the secondary market in relation to the bonds of an EMF Member in accordance with Article 12(1).

2. Decisions on interventions on the secondary market to address contagion shall be taken on the basis of an analysis of the ECB recognising the existence of exceptional financial market circumstances and risks to financial stability.

3. The policy conditions attached to the secondary market support facility shall be detailed in the MoU, in accordance with Article 13(3).
4. The financial terms and conditions under which the secondary market operations are to be conducted shall be specified in a financial assistance facility agreement, to be signed by the Managing Director.
5. The Board of Directors shall adopt detailed guidelines on the procedure for implementing the secondary market support facility.
6. The Board of Directors shall decide by reinforced qualified majority, on the basis of a proposal from the Managing Director, to initiate operations on the secondary market.

Article 19

Instrument for the direct recapitalisation of credit institutions

1. Without prejudice to Articles 107 and 108 TFEU, Articles 18(4)(d) and 27(9) of Regulation (EU) No 806/2014 and Articles 56, 57, and 58 of Directive 2014/59/EU, the Board of Governors of the EMF may decide to grant financial assistance to directly recapitalise credit institutions at the request of an EMF Member. The assistance shall cater for specific cases in which the EMF Member experiences acute difficulties with its financial sector that cannot be remedied without significantly endangering its fiscal sustainability due to a severe risk of contagion from the financial sector to the sovereign or where other alternatives would have the effect of endangering the EMF Member's continuous market access.
2. The credit institution concerned shall be of systemic relevance or shall pose a serious threat to the financial stability of the euro area as a whole or of the requesting EMF Member.
3. The EMF Member in whose territory the credit institution referred to in paragraph 2 is located shall contribute capital of an appropriate volume and quality along with the EMF.
4. The Board of Governors shall adopt detailed guidelines on the procedure for implementing the instrument for the direct recapitalisation of credit institutions.
5. The Board of Directors shall approve the recapitalisation. Where applicable, such approval may be made subject to conditions specific to the beneficiary institution.
6. Financial commitments arising from decisions adopted pursuant to paragraph 1 shall not exceed the amount of EUR 60 000 million in total.

Title III

Pricing policy and borrowing operations of the EMF

Article 20

Pricing policy

1. When granting stability support, providing credit lines or setting guarantees, the EMF shall aim to fully cover its financing and operating costs and shall include an appropriate margin.
2. For all instruments, pricing shall be detailed in a pricing guideline, which shall be adopted by the Board of Governors.
3. The pricing policy may be reviewed by the Board of Governors.

Article 21

Borrowing operations

1. The EMF may raise funds by issuing financial instruments or by entering into agreements or arrangements, financial or otherwise, with its Members, financial institutions or other third parties.
2. The modalities of the borrowing operations shall be determined by the Managing Director, in accordance with detailed guidelines to be adopted by the Board of Directors.
3. The EMF shall use appropriate risk management tools, which shall be reviewed regularly by the Board of Directors.

PART V

SUPPORT TO THE SRB

Article 22

Credit line or guarantees to the SRB

1. Financial support to the SRB shall be jointly provided by the EMF and by the participating Member States within the meaning of Article 2 of Regulation (EU) No

1024/2013 whose currency is not the euro, on equivalent terms and conditions, through credit lines or ceilings, or both, for guarantees on liabilities of the SRB.

Amounts of support provided to the SRB in accordance with paragraph 1 shall be borne by the EMF and by the participating Member States referred to in paragraph 1 of this Article in proportion to a key to be communicated by the SRB when requesting the support. In order to determine that key, the SRB shall calculate the extraordinary ex-post contributions that would need to be raised in order to repay the total amount of support, and it shall aggregate the results at the level of respectively the territory of all EMF Members and the territories of each participating Member State within the meaning of Article 2 of Regulation (EU) No 1024/2013 whose currency is not the euro. The SRB shall perform this calculation on the basis of the latest information available to it for the purposes of Article 70 of Regulation (EU) No 806/2014. For the purposes of this calculation, the SRB shall not apply Article 5(1)(e) of the agreement on the transfer and mutualisation of contributions to the Fund.

2. The combined amount of outstanding commitments arising from decisions adopted under paragraph 1 shall be subject to an initial ceiling of EUR 60 000 million.

3. Funds provided to the SRB shall be recouped by the SRB in accordance with Article 73 of Regulation (EU) No 806/2014.

4. The Board of Governors, acting in agreement with the participating Member States referred to in paragraph 1:

- (a) shall adopt the financial terms and the conditions of the support;
- (b) may decide to increase the ceiling referred to in paragraph 2.

5. Where a Member State whose currency is not the euro becomes a participating Member State within the meaning of Article 2 of Regulation (EU) No 1024/2013, that Member State shall agree with the EMF and the other participating Member States within the meaning of Article 2 of Regulation (EU) No 1024/2013 whose currency is not the euro, to confirm or revise, as necessary the terms and conditions referred to in paragraph 4.

Where a Member State whose currency is not the euro becomes a participating Member State within the meaning of Article 2 of Regulation (EU) No 1024/2013, the initial ceiling referred to in paragraph 3 shall increase by the same proportion as the increase in the target level that occurs in accordance with Article 69 of Regulation (EU) No 806/2014 when a Member State whose currency is not the euro becomes a participating Member State within the meaning of Article 2 of Regulation (EU) No 1024/2013.

6. The financial terms and conditions referred to in point (a) of paragraph 4 shall be further detailed in one or several financial assistance facility agreements, to be concluded between the SRB, on the one hand, and the EMF and the participating Member States referred to in paragraph 1, on the other hand.

7. Decisions on the drawdown of the credit line or the provision of guarantees on liabilities of the SRB shall be adopted at the latest 12 hours after the receipt of a request from the SRB.

8. Where the request of the SRB is in relation to a resolution scheme, the SRB may, after consulting the Commission, request support before the adoption of such resolution scheme. In that case, the decisions on the drawdown of the credit line or the provision of guarantees on liabilities of the SRB shall take effect at the same time the resolution scheme enters into force.

Article 23

Rules applying to the EMF

1. The Board of Governors shall adopt the financial terms and conditions of the EMF support.

2. The Managing Director shall:

- (a) sign the agreement, subsequent to approval by the Board of Directors;
- (b) have the authority to decide on the drawdown of the credit line or the provision of guarantees on liabilities of the SRB.

3. The Board of Directors shall adopt the detailed guidelines on the modalities for implementing EMF credit lines or guarantees to the SRB.

Article 24

Rules applying to the participating Member States whose currency is not the euro, within the meaning of Article 2 of Regulation (EU) No 1024/2013

Before a Member State whose currency is not the euro becomes a participating Member State within the meaning of Article 2 of Regulation (EU) No 1024/2013, that Member State shall provide credit lines or guarantees in support of the SRB in accordance with Article 22 of this Statute, subject to the adoption of the decision of the ECB

establishing close cooperation between the ECB and the national competent authority of that Member State in accordance with Article 7(2) of Regulation (EU) No 1024/2013.

Those Member States shall put in place the procedures to allow these credit lines and guarantees to be activated in accordance with Article 22 of this Statute.

PART VI

FINANCIAL MANAGEMENT

Article 25

Investment policy

1. The Managing Director shall implement a prudent investment policy for the EMF, in order to ensure its highest creditworthiness, in accordance with guidelines to be adopted and reviewed regularly by the Board of Directors. The EMF shall be entitled to use part of the return on its investment portfolio to cover its operating and administrative costs.

2. The operations of the EMF shall comply with the principles of sound financial and risk management.

Article 26

Dividend policy

1. The Board of Directors may decide, by simple majority, to distribute a dividend to the EMF Members where the amount of paid-in capital and the reserve fund exceed the level required for the EMF to maintain its lending capacity and where proceeds from the investment are not required to avoid a payment shortfall to creditors. Dividends are distributed *pro rata* to the contributions to the paid-in capital, taking into account the possible acceleration referred to in Article 44(3).

2. Without prejudice to Article 8(6) and Article 9(1) of this Statute, and provided that the EMF has not granted financial assistance to one of its members, the proceeds from the investment of the EMF paid-in capital shall be returned to the EMF Members according to their respective contributions to the paid-in capital, after deductions for operational costs.

3. The Managing Director shall implement the dividend policy for the EMF in accordance with guidelines to be adopted by the Board of Directors.

Article 27

Reserve and other funds

1. The Board of Governors shall establish a reserve fund and, where appropriate, other funds.
2. Without prejudice to Article 26 of this Statute, the net income generated by the EMF operations and the proceeds of the financial sanctions received from the EMF Members under the multilateral surveillance procedure, the excessive deficit procedure and the macro-economic imbalances procedure established under Article 121(6) and Article 126 TFEU shall be put aside in a reserve fund.
3. The resources of the reserve fund shall be invested in accordance with guidelines to be adopted by the Board of Directors.
4. The Board of Directors shall adopt such rules as may be required for the establishment, administration and use of other funds.

Article 28

Coverage of losses

1. Losses arising in the course of the EMF operations shall be charged:
 - (a) firstly, against the reserve fund;
 - (b) secondly, against the paid-in capital; and
 - (c) lastly, against an appropriate amount of the authorised unpaid capital, which shall be called in accordance with Article 9(3).
2. Where an EMF Member fails to meet the required payment under a capital call made pursuant to Article 9(2) or (3), a revised increased capital call shall be made to all EMF Members with a view to ensuring that the EMF receives the total amount of paid-in capital needed. After having informed the Commission, the Board of Governors shall decide on an appropriate course of action for ensuring that the EMF Member concerned settles its debt to the EMF within a reasonable period of time. The Board of Governors shall be entitled to require the payment of default interest on the overdue amount.
3. Where an EMF Member settles its debt to the EMF, as referred to in paragraph 2, the excess capital shall be returned to the other EMF Members in accordance with rules adopted by the Board of Governors.

PART VII

FINANCIAL PROVISIONS

Article 29

Budget

1. The EMF shall have an autonomous self-financed budget which is not part of the Union budget.
2. The financial year of the EMF shall begin on 1 January and end on 31 December of each year.

Article 30

Establishment of the budget

1. The Managing Director shall draw up an administrative budget for each financial year and submit it to the Board of Directors no later than 15 November of the preceding financial year.

The Board of Directors shall approve the administrative budget no later than 15 December of the preceding financial year.

2. The annual budget, as approved by the Board of Directors, shall be presented to the Board of Governors at its following annual meeting.

Article 31

Annual accounts

1. The Board of Directors shall keep the annual accounts of the EMF and shall draw up its annual accounts, as well as the quarterly summary statement and profit and loss statement, both expressed in euro, in accordance with generally accepted accounting principles and such additional accounting conventions as required by the Board of Directors and approved by the Board of Auditors.

2. The EMF shall in its internal accounting keep separate accounts for its activities carried out pursuant to Article 19 of this Statute, in accordance with generally accepted

accounting principles and such additional accounting conventions adopted in accordance with paragraph 1 of this Article.

3. The accounts of the EMF shall be audited in accordance with generally accepted auditing standards at least once every year in accordance with Article 34 of this Statute.

4. The Board of Governors shall approve the annual accounts of the EMF.

5. The Managing Director shall circulate to EMF Members a quarterly summary statement of its financial position and a profit and loss statement showing the results of the EMF's operations.

Article 32

Financial statements and annual report

1. The Board of Directors shall draw up the financial statements in respect of any given financial year no later than 31 March of the following year in the form of a balance sheet, a statement of profit and loss and explanatory notes. The explanatory notes shall contain a summary of the relevant balance sheet and statement of profit and loss items in respect of the activities carried out under the instrument for the direct recapitalisation of institutions, extracted from the accounts referred to in Article 31(2).

2. The Managing Director shall draw up an annual report in respect of each financial year and submit it to the Board of Governors for approval at its annual meeting.

The annual report shall contain:

- (a) a description of the policies and activities of the EMF;
- (b) the financial statements for the relevant financial year;
- (c) the report of the external auditors in respect of their audit of the financial statements pursuant to Article 34; and
- (d) the report of the Board of Auditors in respect of the financial statements pursuant to Article 35.

5. Once approved by the Board of Governors, the annual report shall be published on the website of the EMF.

Article 33

Internal audit

An internal audit function shall be established according to international standards.

Article 34

External audit

1. The accounts of the EMF shall be audited by independent external auditors approved by the Board of Governors for a term of three years from among audit firms of good international repute, approved and subject to public oversight in accordance with Directive 2006/43/EC of the European Parliament and of the Council.²

There shall be a mandatory rotation of the audit firm every six years.

2. The independent external auditors shall be responsible for certifying the annual financial statements and shall have full power to examine all books and accounts of the EMF and obtain full information about its transactions.

Article 35

Board of Auditors

1. The Board of Auditors shall consist of five members appointed for a non-renewable term of three years by the Board of Governors and shall be composed as follows:

- (a) two members proposed by the Chairperson;
- (b) two members designated by the supreme audit institutions of two EMF Members, one from the group of half of the EMF Members, rounded down to the nearest integer number, holding the highest number of shares of the EMF and the other from the group of remaining EMF Members, according to a rotation system following the alphabetical order of the names of the EMF Members in each group in English, as set out in table I of this Statute;
- (c) one member designated by the European Court of Auditors.

² Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

To be eligible for appointment to the Board of Auditors, appointees must have competence in auditing and financial matters and must possess the professional knowledge, skills and auditing experience that are necessary for the proper performance of the Board's tasks.

The Board of Auditors shall select a chairperson and vice-chairperson from among its members, each for a renewable term of one year.

The Board of Auditors shall establish rules of procedure to govern its proceedings.

2. The members of the Board of Auditors shall be independent in the performance of their duties. They shall neither seek nor take instruction from the EMF governing bodies, the EMF Members or any other public or private body.

The members of the Board of Auditors shall, in accordance with international standards, take care to avoid all conflicts of interests and shall refrain from any action incompatible with their duties, at the time of their appointment and both during and after their term of office.

3. The Board of Auditors shall draw up independent audits. It shall inspect the EMF accounts and verify the correctness of the operational accounts and balance sheet. It shall audit the regularity, compliance, performance and risk management of the EMF in accordance with international auditing standards. It shall monitor and review the EMF's internal and external audit processes and their results.

The Board of Auditors shall have full access to any EMF document and information, including data regarding internal and external audit processes that are needed for the implementation of its tasks.

4. The Board of Auditors may inform the Board of Directors at any time of its findings. It shall, on an annual basis, draw up a report to be submitted to the Board of Governors, on its audit findings in relation to the operational accounts and balance sheet and its conclusions and recommendations.

5. The Board of Governors shall make the annual report accessible to the national Parliaments and supreme audit institutions of the EMF Members and to the European Court of Auditors no later than 30 days after receipt from the Board of Auditors. It shall simultaneously send the report to the European Parliament, the Council and the Commission.

6. The Board of Auditors may decide to draw up additional reports at the request of the Board of Governors or the Managing Director.

7. The members of the Board of Auditors and the experts appointed by it shall keep in strict confidentiality and shall not disclose all non-public information obtained in the performance of their duties, including after the termination of their term of office or appointment.

PART VIII

GENERAL PROVISIONS

Article 36

Location

1. The EMF shall have its seat and principal office in Luxembourg.
2. The EMF may establish liaison offices subject to a decision by the Board of Directors pursuant to Article 6(5) of this Statute.

Article 37

Seat agreement

The arrangements concerning the accommodation and the facilities to be provided for the EMF by the Grand Duchy of Luxembourg, shall be laid down in a seat agreement between the EMF and Luxembourg. Until the entry into force of the seat agreement, the headquarters agreement between the ESM and the Grand Duchy of Luxembourg of 8 October 2012 shall remain applicable to the EMF.

Article 38

Privileges and immunities

1. Protocol No 7 on the privileges and immunities of the European Union, annexed to the TEU and to the TFEU, shall apply to the EMF and its staff.
2. The EMF shall be exempted from any requirement to be authorised or licensed as a credit institution, investment services provider or other authorised licensed or regulated entity under Union law and the laws of its Member States.

Article 39

Staff of the EMF

1. The Staff Regulations, the Conditions of Employment of Other Servants and the rules of application adopted jointly by the Union institutions for giving effect to the Staff Regulations and to the Conditions of Employment of Other Servants shall apply to the staff of the EMF pursuant to Article 1a(2) of the Staff Regulations, with the exception of staff who, on date of entry into force of the Regulation, are employed under a contract concluded with the ESM. Such contracts, including those with nationals of third countries, shall continue to be governed by the contractual arrangements applicable at the time of the entry into force of this Regulation.

In accordance with the Conditions of Employment of Other Servants, the authority entitled to conclude contracts referred to in paragraph 5 of this Article shall offer employment of indefinite duration as a member of the temporary or contract staff to any person who, on date of entry into force of this Regulation, is employed under a contract of indefinite duration concluded by the ESM. The offer of employment shall be based on the tasks to be performed by the servant as a member of the temporary or contract staff.

The contracts of a definite duration concluded by the ESM shall expire at their due date and shall not be renewed under the contractual arrangements applicable at the time of the entry into force of this Regulation.

2. By way of derogation from paragraph 1 of this Article, the Managing Director shall be on a par with the Vice-President of the Court of Justice regarding emoluments and pensionable age, as defined in Council Regulation (EU) No 300/2016.³ Members of the management board shall be on par with a Member of Specialised Tribunal, as defined in Regulation (EU) No 300/2016. For aspects not covered by Regulation (EU) No 300/2016, the Staff Regulations and the Conditions of Employment shall apply.

3. EMF staff shall consist of officials, temporary staff and contract staff. The Management Board shall be informed on a yearly basis of contracts of an indefinite duration granted by the Managing Director.

4. The Board of Directors shall adopt the necessary implementing measures in accordance with the arrangements provided for in Article 110 of the Staff Regulations.

³ Council Regulation (EU) 2016/300 of 29 February 2016 determining the emoluments of EU high-level public office holders (OJ L 58, 4.3.2016, p. 1).

5. In respect of the staff of the EMF, the Managing Director shall exercise the powers conferred on the appointing authority by the Staff Regulations and on the authority entitled to conclude contracts by the Conditions of Employment of Other Servants.

Article 40

Professional secrecy and exchange of information

1. The Members and former Members of the Board of Governors or of the Board of Directors and any other persons who work or have worked for or in connection with the EMF shall not disclose information that is subject to professional secrecy pursuant to Article 339 TFEU and to the applicable provisions in Union law, even after the termination of their duties. They shall, in particular, be required not to disclose information of the kind covered by the obligation of professional secrecy acquired during the course of their professional activities to any person or authority, unless it is in the exercise of their functions under this Regulation.

2. The Board of Directors shall adopt a code of conduct which shall be binding on the Managing Director and all directors, alternate directors and members of staff of the EMF and shall set forth their obligations on such matters as confidentiality, public statements and contacts with the media, personal investments and disclosure of financial and business interests.

3. The Board of Directors shall adopt the necessary measures regarding the safe handling, processing, disclosure, and sharing of confidential information.

4. The Managing Director shall ensure that before any information is disclosed, that it does not contain confidential information, in particular by assessing the effects that the disclosure could have on the public interest as regards the stability of the financial system of the euro area, of an EMF Member or of a participating Member State within the meaning of Article 2 of Council Regulation (EU) No 1024/2013, on international, financial, monetary, or economic policy and relations, on the commercial interests of natural and legal persons, on court proceedings, on the purpose of inspections, on investigations and on audits. The procedure for checking the effects of disclosing information shall include a specific assessment of the effects of any disclosure of the contents and details of any document regarding the provision of financial stability support referred to in Article 16 of this Statute or the provision of credit lines or setting guarantees in support of the SRB referred to in Articles 22 to 24 of this Statute.

5. Subject to appropriate safeguards for ensuring confidentiality established pursuant to paragraph 3 of this Article, the Board of Directors shall not prevent the EMF, its Members, the Council, the Commission, the ECB, including their respective employees and experts, from sharing any information, including confidential information, with

each other and with central banks, national competent authorities within the meaning of Article 2 of Regulation (EU) No 1024/2013, deposit guarantee schemes, investor compensation schemes, the SRB, national resolution authorities, authorities responsible for normal insolvency proceedings and with participating Member States within the meaning of Article 2 of Regulation (EU) No 1024/2013 whose currency is not the euro or their competent authorities that carry out functions equivalent to those mentioned in this paragraph, for the execution of the EMF's tasks. The Managing Director shall subject the sharing of information to the necessary measures provided for in paragraph 3 of this Article.

6. This Article shall apply without prejudice to the accountability requirements of the EMF to the European Parliament in accordance with Article 5 and to the national parliaments of EMF Members in accordance with Article 6(3) of this Regulation.

7. The requirements of professional secrecy referred to in paragraph 1 shall also apply to observers pursuant to Article 5(3), (4) and (5) or participants who attend the meetings of the Board of Governors pursuant to Article 22.

Article 41

Cooperation

1. The EMF may establish and maintain cooperative relations with institutions, bodies, offices and agencies of the Union in accordance with their respective objectives, and with the authorities of the Member States, the authorities of third countries which provide financial assistance to an EMF Member on an *ad hoc basis*, and international organisations or entities having specialised responsibilities in related fields.

2. For the purposes set out in paragraph 1, the EMF may conclude working arrangements, in particular with the Commission and the European Central Bank. Those working arrangements shall be of a technical and/or operational nature and shall in particular aim at facilitating cooperation and the exchange of information between the parties thereto in accordance with Article 40(5) of this Statute. The working arrangements shall not have legally binding effects.

PART IX

TRANSITIONAL ARRANGEMENTS

Article 42

Management of the European Financial Stability Facility

The EMF may manage the EFSF on the basis of a management agreement with the EFSF including terms of remuneration. Where the ESM has concluded any agreement to the same effect, Article 2 of this Regulation shall apply to such an agreement.

Article 43

Payment of the initial capital for new EMF members

1. Without prejudice to Article 8(4) and paragraph 3 of this Article, the exercise of a new EMF Member's rights granted by this Regulation, including voting rights, shall be conditional upon the subscription of its initial contribution to the authorised capital stock.
2. When subscribing its initial contribution, the new EMF Member's payment of paid-in shares shall be made in five equal annual instalments of 20% of the total amount. The remaining four instalments shall each respectively be payable on the first, second, third and fourth anniversary of the payment date of the first instalment.
3. During the five-year period of capital payment by instalments, new EMF Members shall accelerate the payment of paid-in shares in a timely manner prior to the issuance date in order to maintain a minimum 15% ratio between paid-in capital and the outstanding amount of EMF issuances and guarantee a lending capacity of the EMF of EUR 500 000 million.
4. A new EMF Member may decide to accelerate the payment of its share of paid-in capital.

Article 44

Temporary correction of the contribution key

1. The temporary correction included in the initial contribution key shall apply for a period of twelve years after the date of adoption of the euro by the EMF Member concerned.
2. If a new EMF Member's gross domestic product (GDP) per capita at market prices in euro in the year immediately preceding its entry into the EMF is less than 75% of the Union average GDP per capita at market prices, then its contribution key for subscribing to EMF authorised capital stock, determined in accordance with Article 8, shall benefit from a temporary correction and equal the sum of:
 - (a) 25% of the percentage share in the ECB capital of the national central bank of that EMF Member, determined in accordance with Article 29 of the ESCB Statute; and
 - (b) 75% of that EMF Member's percentage share in the gross national income at market prices in euro of the euro area in the year immediately preceding its entry into the EMF.

The percentages referred to in points (a) and (b) shall be rounded up or down to the nearest multiple of 0.0001 percentage points. The statistical terms shall be those published by Eurostat.

3. The temporary correction referred to in paragraph 2 shall apply for a period of twelve years from the date of adoption of the euro by the EMF Member concerned.
4. As a result of the temporary correction of the key, the relevant proportion of shares allocated to an EMF Member pursuant to paragraph 2 of this Article shall be reallocated amongst the EMF Members not benefiting from a temporary correction on the basis of their shareholding in the ECB, determined in accordance with Article 29 of the ESCB Statute, subsisting immediately prior to the issue of shares to the new EMF Member.

PART X

OTHER PROVISIONS

Article 45

Anti-fraud measures

1. For the purposes of combating fraud, corruption and any other unlawful activity referred to in Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council,⁴ within six months from the date of entry into force of this Regulation, the EMF shall accede to the Interinstitutional Agreement of 25 May 1999 concerning internal investigations by the European Anti-Fraud Office ('OLAF') and shall immediately adopt appropriate provisions applicable to all staff of the EMF using the template set out in the Annex to that Interinstitutional Agreement.
2. The Court of Auditors shall have the power to audit the beneficiaries, contractors and subcontractors who have received funds from the EMF on the basis of documents and of on- the-spot checks.
3. OLAF may carry out investigations, including on-the-spot checks and inspections with a view to establishing whether there has been fraud, corruption or other illegal activity affecting the financial interests of the Union in connection with a contract funded by the EMF in accordance with the provisions and procedures laid down in Council Regulation (Euratom, EC) No 2185/96⁵ and Regulation (EU, Euratom) No 883/2013.

Article 46

Access to documents

1. Regulation (EC) No 1049/2001 of the European Parliament and the Council⁶ shall apply to documents held by the EMF.

⁴ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

⁵ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

⁶ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

2. The EMF shall, within six months of the date of entry into force of this Regulation, adopt internal measures for the application of Regulation (EC) No 1049/2001.

3. Decisions taken by the EMF in accordance with Article 8 of Regulation (EC) No 1049/2001 may be the subject of a complaint to the European Ombudsman or of proceedings before the Court of Justice under the conditions laid down in Articles 228 and 263 TFEU respectively.

4. Persons who are subject to the EMF's decisions shall be entitled to have access to the EMF's file, subject to the legitimate interest of other persons in the protection of their business secrets. The right of access to the file shall not extend to confidential information or internal preparatory documents of the EMF.

Article 47

Language requirements

1. Unless otherwise provided for in this Regulation, Council Regulation 1/1958⁷ shall apply to the EMF.

2. The working language or languages of the EMF, including for the conduct of meetings of the Board of Governors, the Board of Directors, the Management Board and the Board of Auditors, shall be determined by the Board of Governors in accordance with Article 5(8) of this Statute.

3. The EMF may decide which of the official languages to use when sending documents to Union institutions, agencies or bodies.

4. The authentic version of all records of the EMF shall be the English version, unless:

- (a) the Board of Directors decides otherwise in respect of a particular transaction;
- (b) the Managing Director, at the request and at the expense of an EMF Member, validates as authentic the translation of a particular decision taken by the Board of Governors or by the Board of Directors into the official language or languages of that EMF Member if necessary for the completion of applicable national procedures.

⁷ Council Regulation No 1 of 15 April 1958 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).

TABLE I**Initial contribution key of the EMF**

| <i>EMF Member</i> | <i>EMF key (%)</i> |
|------------------------------------|--------------------|
| <i>Kingdom of Belgium</i> | 3.4534 |
| <i>Federal Republic of Germany</i> | 26.9616 |
| <i>Republic of Estonia</i> | 0.1847 |
| <i>Ireland</i> | 1.5814 |
| <i>Hellenic Republic</i> | 2.7975 |
| <i>Kingdom of Spain</i> | 11.8227 |
| <i>French Republic</i> | 20.2471 |
| <i>Italian Republic</i> | 17.7917 |
| <i>Republic of Cyprus</i> | 0.1949 |
| <i>Republic of Latvia</i> | 0.2746 |
| <i>Republic of Lithuania</i> | 0.4063 |
| <i>Grand Duchy of Luxembourg</i> | 0.2487 |
| <i>Malta</i> | 0.0726 |
| <i>Kingdom of the Netherlands</i> | 5.6781 |
| <i>Republic of Austria</i> | 2.7644 |
| <i>Portuguese Republic</i> | 2.4921 |
| <i>Republic of Slovenia</i> | 0.4247 |
| <i>Slovak Republic</i> | 0.8184 |
| <i>Republic of Finland</i> | 1.7852 |
| Total | 100.0 |

The above figures are rounded to four decimals.

TABLE II

Subscription to the initial authorised capital stock

| <i>EMF Member</i> | <i>Number of shares</i> | <i>Capital subscription (EUR)</i> |
|------------------------------------|-------------------------|---------------------------------------|
| <i>Kingdom of Belgium</i> | 243 397 | 24 339 700 000 |
| <i>Federal Republic of Germany</i> | 1 900 248 | 190 024 800 000 |
| <i>Republic of Estonia</i> | 13 020 | 1 302 000 000 |
| <i>Ireland</i> | 111 454 | 11 145 400 000 |
| <i>Hellenic Republic</i> | 197 169 | 19 716 900 000 |
| <i>Kingdom of Spain</i> | 833 259 | 83 325 900 000 |
| <i>French Republic</i> | 1 427 013 | 142 701 300 000 |
| <i>Italian Republic</i> | 1 253 959 | 125 395 900 000 |
| <i>Republic of Cyprus</i> | 13 734 | 1 373 400 000 |
| <i>Republic of Latvia</i> | 19 353 | 1 935 300 000 |
| <i>Republic of Lithuania</i> | 28 634 | 2 863 400 000 |
| <i>Grand Duchy of Luxembourg</i> | 17 528 | 1 752 800 000 |
| <i>Malta</i> | 5 117 | 511 700 000 |
| <i>Kingdom of the Netherlands</i> | 400 190 | 40 019 000 000 |
| <i>Republic of Austria</i> | 194 838 | 19 483 800 000 |
| <i>Portuguese Republic</i> | 175 644 | 17 564 400 000 |
| <i>Republic of Slovenia</i> | 29 932 | 2 993 200 000 |
| <i>Slovak Republic</i> | 57 680 | 5 768 000 000 |
| <i>Republic of Finland</i> | 125 818 | 12 581 800 000 |
| Total | 7 047 987 | 704 798 700 000 |

2.3. MAY 2018 PACKAGE: A UNION BUDGET FOR A STRONGER ECONOMIC AND MONETARY UNION

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A modern budget for a Union that protects, empowers and defends the Multiannual Financial Framework for 2021-2027

COM(2018) 321 final 02.05.2018

1. A NEW, MODERN BUDGET FOR THE UNION OF 27

Once every seven years, the European Union decides on its future long-term budget – the Multiannual Financial Framework. The next such budget, starting on 1 January 2021, will be the first for the European Union of 27.

This is a pivotal moment for our Union. It is an opportunity for Member States and the European institutions to unite around a clear vision for the future of Europe. A time to show unequivocally that the Union is ready to back up its words with the actions needed to deliver on our common vision. A modern, focused EU budget will help to continue bringing to life the positive agenda proposed by President Jean-Claude Juncker in his State of the Union address before the European Parliament on 14 September 2016¹ and agreed by the Leaders of the 27 Member States in Bratislava on 16 September 2016, as well as in the Rome Declaration of 25 March 2017. A modern, focused EU budget will help to make the Union big on big and small on small things, as agreed in Rome.

¹ State of the Union Address 2016: “Towards a better Europe – a Europe that protects, empowers and defends”.

Negotiations on the next Multiannual Financial Framework come at a time of new dynamism for the Union, but also of great challenges. The Union acted decisively in the wake of the financial and economic crisis to lay solid foundations for a sustainable recovery. The economy is now growing and creating jobs. The focus of the Union is increasingly on delivering efficiently and fairly on the things that really matter in the daily lives of citizens. And to do this for the citizens in all Member States of the Union. President Juncker's call to overcome divisions and make the Union more united, stronger and more democratic² should therefore also be reflected in the design of the new budget.

Choices taken in the coming months will shape the Union for decades to come. The stakes are high. Technological and demographic change is transforming our economies and society. Climate change and scarce resources are forcing us to look hard at how we can ensure that our way of living is sustainable. Unemployment, notably amongst young people, remains high in many parts of Europe. New security threats require new responses. The refugee crisis, caused by war and terror in Europe's neighbourhood, has shown the need to reinforce our capacity to manage migratory pressures and to address their root causes. Geopolitical instability is increasing and the values and democratic principles on which our Union is founded are being tested.

The proposals the Commission is presenting today for the 2021-2027 Multiannual Financial Framework will help responding to these opportunities and challenges. They are the product of an open and inclusive debate. The Commission has set out options for the future EU budget in its Communication of 14 February 2018.³ The Commission has listened carefully to the European Parliament⁴, to Member States, to national Parliaments, to the beneficiaries of EU funding and to other stakeholders. Open public consultations held earlier this year generated more than 11,000 responses.

The Commission is proposing a new, modern long-term budget, tightly geared to the political priorities of the Union at 27. The proposed budget combines new instruments with modernised programmes to deliver efficiently on the Union's priorities and to rise to new challenges. The proposals also show how the financing of the budget could be simplified and reformed to forge a stronger link with the political priorities. These proposals are designed to make a unique impact in building a prosperous, secure and cohesive Europe. They do so by focusing on the areas where the Union is best placed to deliver.

² State of the Union Address 2017: "Catching the wind in our sails".

³ COM(2018) 98.

⁴ European Parliament Resolutions of 14 March 2018 on "The next Multiannual Financial Framework: Preparing the Parliament's position on the Multiannual Financial Framework post-2020 (2017/2052(INI))" and on the "Reform of the European Union's system of own resources (2017/2053(INI))".

In each area, the Commission proposes the level of funding that will be needed to live up to our collective ambitions. The legal proposals for the individual future financial programmes will follow in the coming weeks.

The proposals also respond in a realistic and balanced way to the budgetary consequences of the withdrawal of the United Kingdom. The departure of an important contributor to the EU budget will have a financial impact and the future Financial Framework must take account of that. Maintaining a level of support that matches our ambitions across the priority areas will require additional contributions from all Member States in a fair and balanced way. In parallel, no effort must be spared to make the EU budget more efficient. The Commission is proposing savings in some of the main spending areas and reforms across the budget to make it more streamlined and to get the most from every euro.

Europe is in the midst of the biggest debate on its future for a generation. It was kickstarted by the Commission's White Paper on the Future of Europe, published on 1 March 2017⁵, and will culminate at the Informal Leaders' Meeting in Sibiu, Romania on 9 May 2019. Weeks before Europeans take to the polls, this will be a time for the Leaders of the 27 Member States and for the European Parliament to stand up for the Europe they want and to equip the Union with the means to deliver. Decisive progress on the future long-term budget by this time will send out a strong message of resolve and determination to move forward together.

2019 will be a new start for our Union of 27. We must be ready for it. Time is short to put the new framework into place and make sure that the new programmes are ready to deliver for the EU's citizens and businesses from day one. The new EU budget will be a simpler, more flexible and more focused budget. A budget guided by the principles of prosperity, sustainability⁶, solidarity and security. A budget for a European Union that protects, empowers and defends. A budget that unites and does not divide. A budget that is fair for all Member States. A budget for Europe's future. The work on this needs to start now.

2. MODERNISING THE EU BUDGET

The EU budget has long been a vital source of growth-enhancing investment for the whole of Europe. Even in times of crisis, it has allowed the Union to support growth and job creation and to drive long-term innovation and economic reform. The creation of the European Fund for Strategic Investments (the "Juncker Fund") illustrates well

⁵ COM(2017) 2025.

⁶ The Commission will adopt at the end of the year a Reflection Paper "Towards a Sustainable Europe by 2030, on the follow-up to the UN Sustainable Development Goals, including on the Paris Agreement on Climate Change" to address possible ways on how to integrate the Sustainable Development Goals further in EU policy making.

how the EU budget was able to provide a much-needed boost to Europe’s economic recovery at a critical moment. The EU budget has also been a decisive part of the response to our many serious challenges, from large-scale migratory flows, to security threats and climate change.

Recent experience has laid bare some weaknesses in the current framework. Despite some improvements, the EU budget is still too rigid. A lack of flexibility has prevented Europe from reacting quickly and effectively enough in a fast-changing world. Complex and divergent funding rules make it harder to access EU funding and divert attention from what really counts: achieving results on the ground. Funds are spread over too many programmes and instruments, both within and outside the budget. More can be done to modernise and simplify the two biggest spending blocks in the budget, the Common Agricultural Policy and Cohesion Policy. Many of the new priorities for a Union that protects, empowers and defends need new, tailored instruments to turn ambitions into reality.

The main message from the Commission’s extensive consultations has been received loud and clear. A more united, stronger and more democratic Europe needs a new, modern budget. And it needs fresh thinking on how that budget can deliver for people across the Union. The Commission’s thorough **spending review**⁷ has helped to pinpoint what has worked well in the past and what should be preserved in the next budget. But it also revealed where reform is needed to unlock the full potential of the EU budget. Based on this assessment, the Commission is proposing a modern framework and a set of new and reformed programmes shaped by the following principles:

► **A stronger focus on European added value.** The EU budget is modest in comparison with the size of the European economy and national budgets. This makes it vital that it invests in areas where the Union can offer real European added value to public spending at national level. Pooling resources can achieve results that Member States acting alone cannot.⁸ Examples include cutting-edge research projects that bring together the best researchers from across Europe, or empowering young people and small businesses to take full advantage of the opportunities the Single Market and the digital economy offer. Other instances when pooling resources helps us do more include catalysing key strategic investments. These investments hold the key to Europe’s future prosperity and its leadership on the global Sustainable Development Goals. The same is true when it comes to equipping the Union to defend and protect its citizens in a fast-changing world where many of the most pressing issues transcend national borders.

⁷ See the accompanying Staff Working Document SWD (2018) 171.

⁸ See also SWD (2018) 171, page 7.

- ▶ **A more streamlined and transparent budget.** The Commission is proposing a more coherent, focused and transparent framework. The structure of the budget will be clearer and more closely aligned with priorities. The Commission proposes to reduce the number of programmes by more than a third, for example by bringing fragmented funding sources together into new integrated programmes and radically streamlining the use of financial instruments.
- ▶ **Less red tape for beneficiaries.** The Commission proposes to make rules more coherent on the basis of a single rulebook.⁹ This will drastically reduce the administrative burden for beneficiaries and managing authorities. It will facilitate participation in EU programmes and accelerate implementation. It will make it easier for different programmes and instruments to work together to boost the impact of the EU budget. In addition, the Commission will propose to simplify and streamline State aid rules to make it easier to link up instruments from the EU budget with national funding.
- ▶ **A more flexible, agile budget.** In an unstable geopolitical environment, Europe must be able to respond quickly and effectively to unforeseen demands. The Commission is proposing to build on existing mechanisms to make the budget more agile. This includes increasing flexibility within and between programmes, strengthening crisis management tools and creating a new “Union Reserve” to tackle unforeseen events and to respond to emergencies in areas such as security and migration.
- ▶ **A budget that performs.** The EU budget can only be judged a success if it delivers tangible results on the ground. The Commission is proposing to strengthen the focus on performance across all programmes, including by setting clearer objectives and focusing on a smaller number of higher quality performance indicators. This will make it easier to monitor and measure results – and to take make changes when necessary.

The design of future programmes is only the first step. The real test is whether the programmes deliver on the ground. The **efficient and effective implementation** of the next generation of programmes is therefore a high priority. This is a shared responsibility between the Commission, Member States, regional authorities and everyone involved in managing the EU budget.

⁹ In line with the recommendations of the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds, the recommendations of the European Court of Auditors and the Committee of the Regions, as well as of the European Parliament.

It is also essential to strengthen the link between EU funding and the **respect for the rule of law**. The EU is a Community based on the rule of law, which also means that independent courts at national and EU level are entrusted with watching over the respect of our jointly agreed rules and regulations, and of their implementation in all Member States. Respect for the rule of law is an essential precondition for sound financial management and effective EU funding. The Commission is therefore proposing a new mechanism to protect the EU budget from financial risks linked to generalised deficiencies as regards the rule of law.

THE EU BUDGET AND THE RULE OF LAW

Under current rules, all Member States and beneficiaries are required to show that the regulatory framework for financial management is robust, that relevant EU rules are being complied with and that the necessary administrative and institutional capacity is in place. The current Multiannual Financial Framework also contains provisions to ensure that the effectiveness of EU funding is not undermined by unsound economic and fiscal policies.

The Commission is now proposing to **strengthen the protection of the EU budget from financial risks linked to generalised deficiencies as regards the rule of law in the Member States**. If such deficiencies impair or threaten to impair sound financial management or the protection of the financial interests of the Union, it must be possible to draw consequences for EU funding. Any measure taken under this new procedure will need to be proportionate to the nature, gravity and scope of the generalised deficiencies in the rule of law. It would not affect the obligations of the Member States concerned with regard to beneficiaries.

The decision as to whether a generalised deficiency in the rule of law risks affecting the financial interests of the EU will be proposed by the Commission and adopted by the Council through reversed qualified majority voting¹⁰. It will take into account relevant information such as decisions by the Court of Justice of the European Union, reports from the European Court of Auditors, as well as conclusions of relevant international organisations. The Member State concerned will be given the opportunity to set out its reasoning before any decision is taken.

¹⁰ Under reverse qualified majority voting, the Commission's proposal is deemed to be adopted by the Council unless it decides by qualified majority to reject the Commission's proposal.

3. A BUDGET FOR EUROPE'S PRIORITIES

The future long-term budget will be a budget for the Union's priorities. The Commission's proposals will bring the structure and the programmes of the EU budget fully into line with the positive agenda of the Union post-2020 as agreed in Bratislava and Rome. The new architecture of the future Multiannual Financial Framework will provide greater transparency on what the EU budget is for and how the different parts of the budget will contribute. It will also provide the flexibility necessary to respond to evolving needs.

Programmes will be arranged around the main thematic spending priorities. These will correspond to the headings in the formal budget structure. Within each priority, programmes will be grouped in policy clusters, which will be reflected in the titles of the annual budget. This will provide greater clarity on how they will contribute to policy goals.

In practice, the formal structure of the budget only tells part of the story. Many of the Union's priorities are complex and multi-faceted. It would not be possible to tackle every aspect with a single programme. Under the Commission's proposals, investment from multiple programmes will combine to address key crosscutting priorities such as the digital economy, sustainability, security, migration, human capital and skills, as well as support for small businesses and innovation. The Commission proposes to simplify these interactions under the future framework, providing a much more coherent response to Europe's challenges. The following sections set out the main reforms and programmes under each of the spending priorities.

More detailed information on the objectives, design and European added value of the individual programmes is contained in the Annex to this Communication.

**The new Multiannual Financial Framework 2021-2027:
A Modern Budget for a Union that Protects, Empowers and Defends**



**I. SINGLE MARKET,
INNOVATION &
DIGITAL**

1 Research & Innovation

- Horizon Europe
- Euratom Research & Training Programme
- International Thermonuclear Experimental Reactor (ITER)

2 European Strategic Investments

- InvestEU Fund
- Connecting Europe Facility
- Digital Europe Programme (including Cybersecurity)

3 Single Market

- Single Market Programme (including Competitiveness and Small and Medium-Sized Enterprises - COSME, Food Safety, Statistics, Competition and Administrative Cooperation)
- EU Anti-Fraud Programme
- Cooperation in the Field of Taxation (FISCALIS)
- Cooperation in the Field of Customs (CUSTOMS)

4 Space

- European Space Programme



**IV. MIGRATION &
BORDER
MANAGEMENT**

10 Migration

- Asylum & Migration Fund

11 Border Management

- Integrated Border Management Fund



**V. SECURITY
& DEFENCE**

12 Security

- Internal Security Fund
- Nuclear Decommissioning (Lithuania)
- Nuclear Safety and Decommissioning (including for Bulgaria and Slovakia)

13 Defence

- European Defence Fund
- Connecting Europe Facility – Military Mobility

14 Crisis Response

- Union Civil Protection Mechanism (rescEU)



**VI.
NEIGHBOURHOOD
&
THE WORLD**

15 External Action*

- Neighbourhood, Development and International Cooperation Instrument (including external



II. COHESION & VALUES

5 Regional Development & Cohesion

- European Regional Development Fund
- Cohesion Fund
- Support to the Turkish-Cypriot Community

6 Economic & Monetary Union

- Reform Support Programme including the Reform Delivery Tool and the Convergence Facility
- Protection of the Euro Against Counterfeiting

7 Investing in People, Social Cohesion & Values

- European Social Fund + (including Integration of Migrants and Health)
- Erasmus+
- European Solidarity Corps
- Justice, Rights & Values
- Creative Europe (including MEDIA)



III. NATURAL RESOURCES & ENVIRONMENT

8 Agriculture & Maritime Policy

- European Agricultural Guarantee Fund
- European Agricultural Fund for Rural Development
- European Maritime & Fisheries Fund

9 Environment & Climate Action

- Programme for Environment & Climate Action (LIFE)

- aspects of migration)
- Humanitarian Aid
- Common Foreign & Security Policy
- Overseas Countries & Territories (including Greenland)

16 Pre-Accession Assistance

- Pre-Accession Assistance



VII. EUROPEAN PUBLIC ADMINISTRATION

17 European Public Administration

- Administrative Expenditure, Pensions and European Schools



INSTRUMENTS OUTSIDE THE MFF CEILINGS

- Emergency Aid Reserve
- EU Solidarity Fund
- European Globalisation Adjustment Fund
- Flexibility Instrument
- European Investment Stabilisation Function

**The European Peace Facility is an off-budget fund outside the Financial Framework*



I. SINGLE MARKET, INNOVATION & DIGITAL

Investing in:

- ▶ Research and Innovation
- ▶ Key strategic infrastructure
- ▶ Strengthening the Single Market
- ▶ Strategic space projects

Europe's future prosperity depends on the investment decisions we take today. The EU budget has long been a vital source of investment across Europe. Stepping up investment now in areas such as research, strategic infrastructure, digital transformation and the Single Market will be key to unlocking future growth and tackling common challenges such as decarbonisation and demographic change.

The new European research programme, **Horizon Europe**, will help Europe remain at the forefront of global research and innovation. As highlighted in the report of the High Level Group chaired by Pascal Lamy¹¹, investment in research will allow the Union to compete with other developed and emerging economies, ensure a prosperous future for its citizens, and preserve its unique social model. Building on the success of Horizon 2020, the new programme will continue to promote research excellence and strengthen the focus on innovation, for instance through the development of prototypes, intangible assets, knowledge and technology transfer. A new **European Innovation Council** will provide a one-stop shop for high potential and disruptive innovators, aiming to make Europe a front runner in market-creating innovation.

Building on the success of the European Fund for Strategic Investments in catalysing private investments throughout Europe, the Commission proposes to set up a new, fully integrated investment fund, **InvestEU**. In this way, a relatively limited amount of public resources can be used to mobilise significant private resources for much needed investments. With the European Investment Bank Group as the main implementing partner and other partners such as National Promotional Banks contributing to the delivery, InvestEU will anchor all centrally managed financial instruments inside the EU in a single, streamlined structure. This new approach will reduce overlaps, simplify access to funding and reduce administrative burden. With a contribution from the EU

¹¹ See the report on “Investing in the European Future we want – Report of the independent High Level Group on maximising the impact of EU Research and Innovation Programmes”.

budget of EUR 15.2 billion¹², InvestEU is expected to mobilise more than EUR 650 billion of additional investment across Europe.

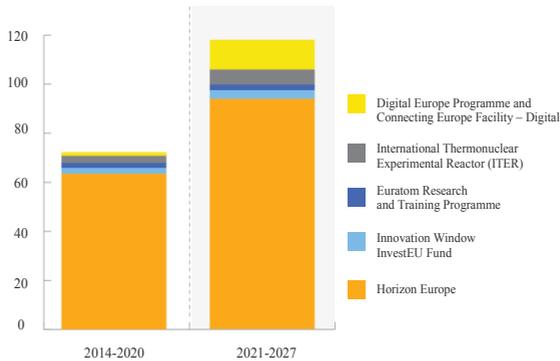
Cross-border infrastructure is the backbone of the Single Market, helping goods, services, businesses and citizens to move freely across borders. Through the reformed **Connecting Europe Facility**, the Union will continue to invest in trans-European transport, digital and energy networks. The future programme will better exploit the synergies between transport, digital and energy infrastructure, for example through developing alternative fuels infrastructure or sustainable and smart grids underpinning the Digital Single Market and the Energy Union. Building on the successful approach of the current programming period, part of the Cohesion Fund allocation (EUR 11.3 billion) will be transferred to the Connecting Europe Facility for transport projects offering high European added value.

In order to bridge the current digital investment gap, the Commission proposes to establish a new **Digital Europe Programme** to shape and support the digital transformation of Europe's society and economy. Technological change and digitisation are changing our industries, societies, jobs and careers, as well as our education and welfare systems. By supporting strategic projects in frontline areas such as artificial intelligence, supercomputers, cybersecurity or industrial digitisation, and investing in digital skills, the new programme will help to complete the Digital Single Market, a key priority of the Union. The Commission proposes a combined increase of 64% in research, innovation and digital investment under direct management in the next Financial Framework. These investments will be complemented by research, innovation and digital projects supported by the European Structural and Investment Funds.

¹² Unless indicated otherwise, amounts presented in this Communication are in current prices. Figures expressed in current prices include the effect of inflation. They are calculated using a 2% annual inflation adjustment.

Investing in the future

In billion euro, current prices



*Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27 (estimate)
Source: European Commission*

A fully integrated **space programme** will bring together all of our activities in this highly strategic field. This will provide a coherent framework for future investment, offering increased visibility and more flexibility. By improving efficiency, it will ultimately help roll out new space-driven services that will benefit all EU citizens. The EU budget will also continue to fund Europe's contribution to the development of the **International Thermonuclear Experimental Reactor (ITER)** project to develop a viable source of safe and environmentally friendly energy for the future.

The Commission is also proposing a new, dedicated programme to support the smooth running of the **Single Market**, Europe's best asset to generate growth in globalised markets, and contribute to the development of a **Capital Markets Union**. Building on the success of the current programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), the Commission proposes to strengthen the support given to small business – the engine of our economy – to scale up and expand across borders. The new programme will help companies and consumers to better exploit the potential of the Single Market by putting in place information tools, developing standards, and supporting cooperation between administrations.

The Commission proposes to renew and reinforce the **Customs** programme, so as to support the further digitisation and modernisation of the customs union, which celebrates its 50th anniversary this year. In parallel, the **Fiscalis** programme will

underpin deepened cooperation between tax administrations, including shared efforts to combat tax fraud and tax avoidance.



II. COHESION & VALUES

Investing in:

- ▶ Regional development and cohesion
- ▶ Completing the Economic and Monetary Union
- ▶ People, social cohesion and values

Economic and social conditions across Europe are improving and employment is strong in many parts of the Union. However, the effects of the economic crisis are still being felt in some parts of Europe. Some regions have fallen further behind, partly due to the effects of globalisation and the digital transformation. Significant disparities persist in the Union and societies face a range of new challenges. The EU budget plays a crucial role in contributing to sustainable growth and social cohesion, and in promoting common values and a sense of belonging to the EU.

The Commission is proposing to modernise and strengthen **Cohesion Policy**¹³. Working together with other programmes, the funds will continue to offer essential support to Europe's Member States and regions. The aim is to drive up convergence, to help reduce economic, social and territorial disparities within Member States and across Europe, as well to support delivering on the political priorities agreed in Bratislava and Rome.

Cohesion Policy will play an increasingly important role in supporting the ongoing economic reform process in the Member States. The Commission proposes to **strengthen the link between the EU budget and the European Semester** of economic policy coordination, which takes regional specificities into account. The Commission will propose dedicated investment-related guidance alongside the annual

¹³ Cohesion Policy is delivered through three main funds, the European Fund for Regional Development, the European Social Fund and the Cohesion Fund.

Country-Specific Recommendations, both ahead of the programming process and at mid-term to provide a clear roadmap for investment in reforms that hold the key to a prosperous future.

Economic and social conditions differ significantly between regions. Whereas there has been important upward convergence in many areas, some regions have actually diverged in recent years, even in relatively richer countries. This evolution should be reflected in Cohesion Policy, so that no region is left behind. The **relative per capita gross domestic product will remain the predominant criterion for the allocation of funds** – as the main objective of Cohesion Policy is and will remain to help Member States and regions lagging economically or structurally behind to catch up with the rest of the EU – while other factors such as unemployment (notably youth unemployment), climate change and the reception/integration of migrants will also be taken into account. The Commission also proposes to increase national co-financing rates to better reflect today’s economic realities. This will have the benefit of increasing ownership at national level, sustaining larger investment volumes and improving their quality. Due consideration will be given to the specificities of the outermost regions and sparsely populated areas.

The new legal framework will also allow for more efficient links with other EU programmes. For example, Member States will be able to transfer some of their allocated funds to the **InvestEU** fund, in order to have access to the guarantee provided by the EU budget. They will also be able to fund “Seal of Excellence” projects identified by the **Horizon Europe** programme as internationally excellent projects in their regions. This will help ensure that investment in infrastructure is well-coordinated with other EU investment in crucial areas such as research and innovation, digital networks, decarbonisation, social infrastructures and skills.

As announced by the Commission in December 2017¹⁴, the future of the EU budget cannot be separated from the goal to bring about a more stable and efficient **Economic and Monetary Union**, to the benefit of the Union as a whole. Under the Treaties, all Member States of the EU are part of the Economic and Monetary Union, also the Member States with a derogation or an opt out, which all participate therefore in the European Semester process. Under the Treaties, the euro is the currency of the EU, and economic convergence and stability are objectives of the Union as a whole. This is why the tools to strengthen the Economic and Monetary Union must not be separate but part and parcel of the overall financial architecture of the Union.

¹⁴ COM(2017) 822.

THE EU BUDGET AND THE ECONOMIC AND MONETARY UNION

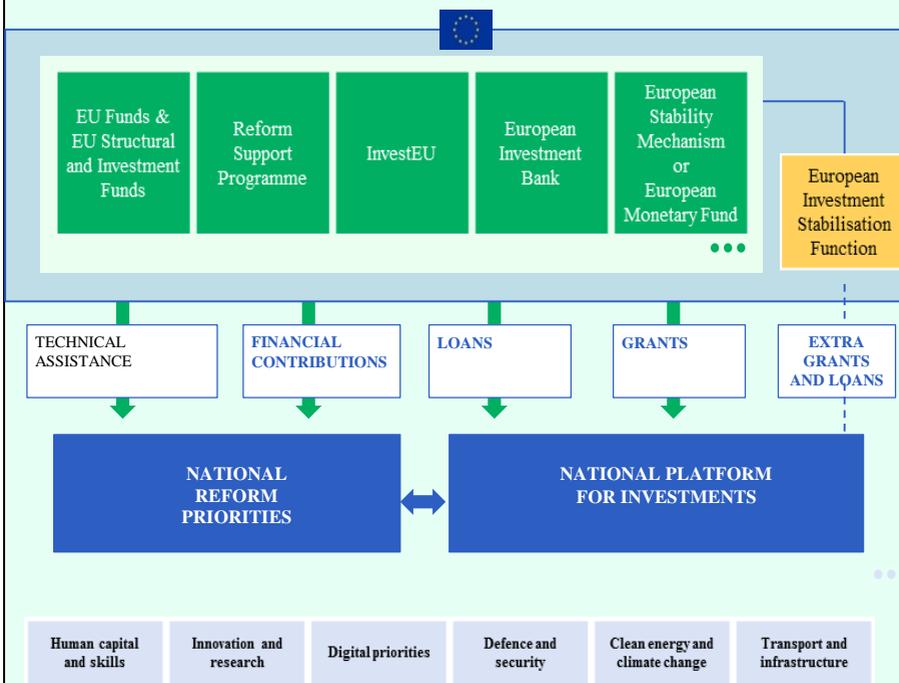
A stable euro area is a precondition for the financial stability and prosperity of the entire Union. As announced in the package on **Deepening Europe's Economic and Monetary Union** of 6 December 2017, the Commission is proposing new budgetary instruments for a stable euro area and for convergence towards the euro area within the Union framework. These new instruments will complement other EU funds, including the European Structural and Investment Funds and InvestEU, in supporting economic convergence, financial stability, job creation and investment.

A new, strong **Reform Support Programme** will offer technical and financial support for reforms at national level with an overall budget of EUR 25 billion. This new programme will be separate but complementary to the future European Structural and Investment Funds. It will include a **Reform Delivery Tool** providing financial incentives across *all* Member States for key reforms identified as part of the European Semester. It will focus on those reforms that can contribute most to making domestic economies more robust and that have positive spill over effects on other Member States. These include reforms in product and labour markets, education, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms. This new programme will also include a dedicated **Convergence Facility** to support non-euro area Member States seeking to adopt the single currency during the period of the next Multiannual Financial Framework. Allocations foreseen for the Convergence Facility will be transferred to the Reform Delivery Tool if by the end of 2023 an eligible Member State has not taken the necessary steps to claim support from the Convergence Facility. Participation in all three legs of the Reform Support Programme will be voluntary and Member States will keep full ownership of the reforms carried out.

A new **European Investment Stabilisation Function** will complement existing instruments at national and European level to absorb large asymmetric macroeconomic shocks in the euro area. As shown in the recent crisis, national automatic stabilisers alone may not be sufficient to cope with large asymmetric shocks and the cuts in investment that often result. In addition to the existing mechanisms, it is proposed that the EU budget will guarantee back-to-back loans of up to EUR 30 billion. The loans will be available to Member States complying with strict eligibility

criteria for sound fiscal and economic policies. The European Investment Stabilisation Function will also provide an interest rate subsidy in order to provide the necessary funding for national budgets to maintain investment levels. This subsidy will be financed from contributions from euro area Member States equivalent to a share of monetary income (*seigniorage*). The European Investment Stabilisation Function could be complemented over time by additional sources of financing outside the EU budget, such as an insurance mechanism financed from voluntary contributions by Member States as well as a possible role for the European Stability Mechanism and for the future European Monetary Fund. The European Investment Stabilisation Function will be open to non-euro area Member States if they contribute to its financing according to the European Central Bank capital subscription key.

New budgetary instruments for a stable euro area within the Union



Source: European Commission. Update of COM(2017) 822

The EU budget also has a vital role to play in delivering on the promises made by Leaders at the Gothenburg Social Summit in November 2017. This means strengthening the social dimension of the Union, including through the full implementation of the **European Pillar of Social Rights**. Within Cohesion Policy, a strengthened and restructured **European Social Fund** will amount to around EUR 100 billion over the period, representing a share of about 27% of cohesion expenditure. It will provide targeted support to youth employment, up- and re-skilling of workers, social inclusion and poverty reduction. To maximise the impact of funding in this area, the Commission proposes to pool the resources of the European Social Fund, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme and the Health programme into one comprehensive instrument.

The Commission proposes a **stronger “youth” focus** in the next Financial Framework. This will be achieved by **more than doubling the size of Erasmus+** and the European Solidarity Corps. The Erasmus+ programme, one of the Union’s most visible success stories, will continue to create opportunities for the education and mobility of young people. The focus will be on inclusiveness, and to reach more young people from disadvantaged backgrounds. This will allow more young people to move to another country to learn or work. A more powerful Erasmus+ programme will reach a size of EUR 30 billion over the period and also include an amount of EUR 700 million for Interrail passes for young people. The Commission also proposes to establish a single **European Solidarity Corps**, integrating the existing EU Aid Volunteers programme. This will offer European citizens a unique opportunity to engage in humanitarian activities with people in need within and outside Europe.

The Commission proposes a new **Justice, Rights and Values Fund**, comprising the **Rights and Values** and **Justice** programmes. At a time where European societies are confronted with extremism, radicalism and divisions, it is more important than ever to promote, strengthen and defend justice, rights, and EU values, which have profound and direct implications for political, social, cultural and economic life in Europe: respect for human dignity, freedom, democracy, equality, the rule of law and human rights. Creating opportunities for engagement and democratic participation in political and civil society are essential tasks for the future EU budget. As part of the new Fund, the Justice Programme will continue to support the development of an integrated European justice area and cross-border cooperation.

Culture is and must be at the heart of the European project. Cultural and linguistic diversity as well as our cultural heritage are the defining characteristics of our continent and our European identity. Through the **Creative Europe** programme, the Commission wants to place a strong emphasis in the next budget on support for culture and the audiovisual sector, including with a strong MEDIA strand with reinforced funding to support the European creative and audiovisual industry.

The EU's crisis management instruments have proven their worth in recent years. Outside the EU budget, the Commission proposes to maintain and reinforce the **European Union Solidarity Fund**, which supports Member States in recovering after severe natural disasters, and the **European Globalisation Adjustment Fund**, which offers one-off assistance to workers who have lost their jobs in the context of a significant number of unexpected dismissals caused by the adverse effects of developments in global trade and economic disruption.



III. NATURAL RESOURCES & ENVIRONMENT

Investing in:

- ▶ Sustainable agriculture and maritime sectors and a safe, high-quality food supply
- ▶ Climate action and environmental protection

Sustainability is a common thread through the work of the Union in many different areas. This is both by necessity and by choice. Through modernised agricultural and maritime policies, dedicated funding for climate action and environmental protection, the mainstreaming of climate across the budget and enhanced integration of environmental objectives, the EU budget is a driver of sustainability.

The Commission is proposing a reformed, modernised **Common Agricultural Policy**. This will allow a fully integrated Single Market for agricultural goods in the EU to be maintained. It will also ensure access to safe, high quality, affordable, nutritious and diverse food. The reformed policy will place greater emphasis on the environment and climate. It will support the transition towards a fully sustainable agricultural sector and the development of vibrant rural areas.

The reformed policy will, with EUR 365 billion¹⁵, continue to be built around two pillars: direct payments to farmers and rural development funding. For the latter, the Commission proposes to increase national co-financing rates. Management will be shared between the EU and the Member States. The Commission proposes to introduce a **new delivery model**, shifting from today's compliance-based policy to a result-oriented policy to deliver on common objectives set at EU level but more flexibly implemented at national level.

¹⁵ In addition, an amount of EUR 10 billion will be foreseen in Horizon Europe to support research and innovation in food, agriculture, rural development and the bioeconomy.

Direct payments to farmers will remain an essential part of the policy, but will be streamlined and better targeted. A **more balanced distribution** will be promoted and a compulsory cap on amounts received or degressive payments will be introduced at farm level. This will mean that support is redistributed towards medium-sized and smaller farms, and possibly to rural development. Direct payment levels per hectare between Member States will continue to **converge** towards the EU average.

The new policy will require a **higher level of environmental and climate ambition** by strengthening conditionality for direct payments, consistent with environmental policies, ring-fencing a significant part of rural development funding for actions beneficial to the climate and the environment and introducing voluntary eco-schemes in the budget for direct payments within a performance-based and strategic framework.

In order to address crises generated by unforeseeable developments in international markets, or by a specific shock to the agricultural sector due to actions undertaken by third countries, a **new crisis reserve** will be established.

Through the **European Maritime and Fisheries Fund**, the EU budget will continue to support a sustainable **EU fisheries sector** and the coastal communities dependent on it. Promoting the **blue economy** in fisheries and aquaculture, tourism, clean ocean energy or blue biotechnology, provides real European added value by encouraging governments, industry and stakeholders to develop joint approaches to drive growth, while safeguarding the marine environment.

The Commission proposes to continue and strengthen the well-established programme for the environment and climate action, **LIFE**, which will also support measures promoting energy efficiency and clean energy. To supplement targeted nature preservation efforts, the Commission is also reinforcing the synergies with Cohesion Policy and the Common Agricultural Policy to finance investment in nature and biodiversity.

More broadly, in line with the Paris Agreement and the commitment to the United Nations Sustainable Development Goals, the Commission proposes to set a more ambitious goal for **climate mainstreaming** across all EU programmes, with a target of 25% of EU expenditure contributing to climate objectives.



IV. MIGRATION & BORDER MANAGEMENT

Investing in:

- ▶ A comprehensive approach to managing migration
- ▶ Strengthening the management of external borders

The challenges of managing refugee flows and migration confirm the need for action at European level. The EU budget played a key role in funding a common response to the various dimensions of the migration crisis. The Commission proposes to increase support to strengthen our external borders, to improve the asylum system within the Union, and to step up the management and long-term integration of migrants.

The **effective protection of our external borders** is a prerequisite for ensuring a safe area for the free movement of persons and goods within the Union. This includes the proper management of flows of persons and goods and safeguarding the integrity of the customs union. A new integrated **Border Management Fund** will provide vital and reinforced support to Member States in the shared responsibility of securing the common external borders of the Union. The Fund will cover border management, visas and customs control equipment. It will help ensure equivalence in the performance of customs controls at the external borders. This will be achieved by addressing the current imbalances between Member States due to geographical, capacity and resource differences. This will not only strengthen customs controls but also facilitate legitimate trade, contributing to a secure and efficient customs union.

In an increasingly interconnected world and given the demographic dynamics and instability in Europe's neighbourhood, migration will continue to remain a long-term challenge for the Union. It is clear that this can be better managed by Member States, with the financial and technical support of the EU. The role of the Union budget is therefore pivotal in supporting the management of asylum seekers and migrants, in developing search and rescue capacities to save the lives of those attempting to reach Europe, in managing effective returns and in other actions that need a coordinated response beyond the capacity of individual Member States.

The Commission proposes to reinforce the **Asylum and Migration Fund** to support the work of national authorities to provide reception to asylum seekers and migrants in the period immediately after arrival on EU territory, as well as developing a common asylum and migration policy and ensuring effective returns. Cohesion Policy will provide support to facilitate the long-term integration after the initial phase of

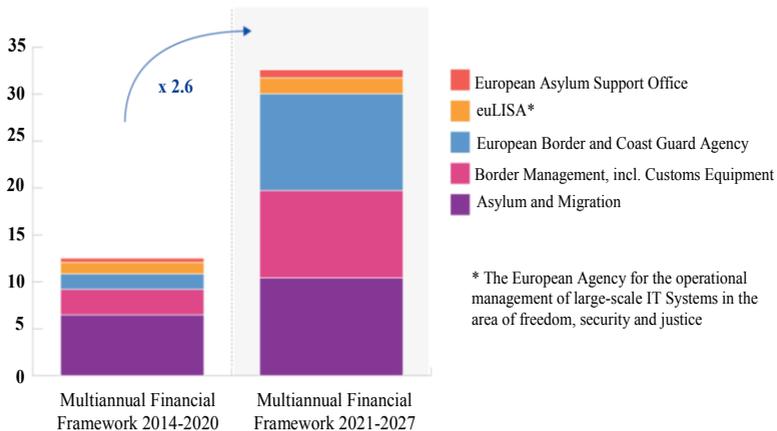
reception. The instruments under the external policy will address the root causes of migration and support cooperation with third countries on migration management and security, thus contributing to the implementation of the Partnership Framework on migration.

These efforts need to be complemented by a strong and fully operational **European Border and Coast Guard (FRONTEX)** at the core of a fully integrated EU border management system. The Commission proposes to create a standing corps of around 10,000 border guards by the end of the financial period. It will also provide financial support and training for the increase of the national border guard component in Member States. This will also allow for the stepping up of operational capacity, the reinforcement of existing tools and the development of EU wide information systems for borders, migration management and security.

Overall, the EU budget for the management of external borders, migration and refugee flows will be significantly reinforced, totalling nearly EUR 33 billion, compared to EUR 12.4 billion for the period 2014-2020.

A strong focus on migration and protecting our external border

In billion euro, current prices



Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27 (estimate)

Source: European Commission



V. SECURITY & DEFENCE

Investing in:

- ▶ The security and safety of Europe's citizens
- ▶ Improving Europe's defence capacities
- ▶ Response to crisis

Over recent years, security threats have intensified and diversified in Europe. They have come in the form of terrorist attacks, new types of organised crime, as well as cybercrime. Security has an inherently cross-border dimension and therefore a strong, coordinated EU response is required. Beyond internal security challenges, Europe faces complex external threats that no Member State can meet on its own. To be ready to protect its citizens, Europe also needs a step change to enhance its strategic autonomy and to build well-designed and streamlined instruments in relation to defence.

The Commission proposes to reinforce the **Internal Security Fund** in order to develop networks and common systems for efficient cooperation between national authorities and to improve the capacity of the Union to face these security threats. This will be complemented by efforts to strengthen **cybersecurity** in all relevant programmes focused on digital technologies, infrastructures and networks, research and innovation as well as targeted defence against cybercrime, notably through the Digital Europe Programme and Horizon Europe.

The Commission also proposes to reinforce the **European Union Agency for Law Enforcement Cooperation (Europol)**. This will increase its ability to support the work of national authorities and provide a European response to security threats.

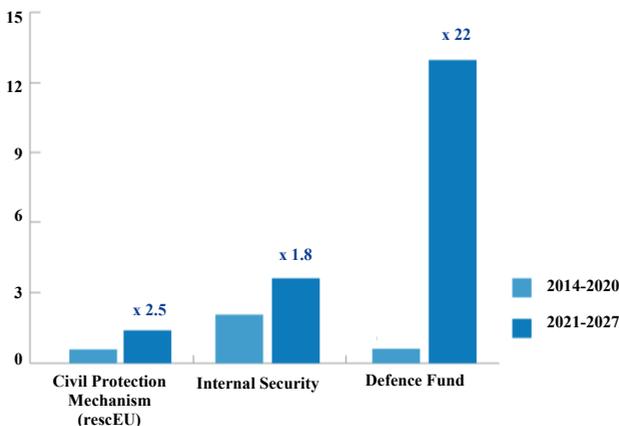
The Union will continue to provide strictly targeted financial support for the **decommissioning and safety of nuclear activities** in some Member States (Lithuania, Bulgaria and Slovakia), as well as its own nuclear installations. The EU budget will also provide lasting support for the health of workers and the general public, preventing environmental degradation and contributing to nuclear safety and security.

In the area of **defence**, the Union will need to take greater responsibility for protecting its interests, values and the European way of life, complementing the work of the North Atlantic Treaty Organisation. While Europe cannot substitute Member States' efforts in defence, it can encourage and leverage their collaboration in developing the defence capabilities needed to address common security challenges. The Commission proposes a strengthened **European Defence Fund** that will aim to foster the competitiveness and innovative capacity of the defence industry throughout the Union by supporting collaborative actions at each stage of the industrial cycle, starting with research. This will avoid duplication, allow for economies of scale and ultimately result in a more efficient use of taxpayers' money. In addition, the Commission proposes that the Union enhances its strategic transport infrastructures so as to make them fit for **military mobility**, through the Connecting Europe Facility.

Developments in recent years have shown that the Union must be able to deploy operational assistance rapidly to deal with unexpected developments, natural and man-made disasters. This is why the Commission is proposing to increase the resources available for **crisis response**. This will be achieved through a reinforced **Civil Protection Mechanism (rescEU)** and an enlarged **Emergency Aid Reserve**, to provide financial means above the ceilings set in the Financial Framework in case of emergencies inside and outside the Union. The Commission also proposes maintaining **unallocated reserves** in certain programmes, such as the Asylum and Migration Fund and the Internal Security Fund, to be used in the event of crisis and emergency situations.

A step change for security and defence

In billion euro, current prices



Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27 (estimate)

Source: European Commission



VI. NEIGHBOURHOOD & THE WORLD

Investing in:

- ▶ The Union's external action in its neighbourhood, in developing countries and the rest of the world
- ▶ Assistance for countries preparing for accession to the Union

The challenges for the EU's external action, including those defined in the Global Strategy for the EU Foreign and Security Policy, the reviewed European Neighbourhood Policy, and the new European Consensus on Development, require a significant modernisation of the external dimension of the budget to increase its effectiveness and visibility. Stronger co-ordination between external and internal policies is also needed with a view to implementing the Sustainable Development Goals and the Paris Climate Agreement, as well as the Partnership Framework with third countries on migration.

The Commission is therefore proposing a **major restructuring** of the Union's external action instruments to provide more coherence between instruments, to exploit economies of scale and synergies between programmes and to simplify processes. This will make the Union better equipped to pursue its goals and project its interests, policies and values globally.

The proposed new architecture for the Union's external action instruments reflects the need to focus on strategic priorities both geographically – the European **Neighbourhood, Africa and the Western Balkans**, as well as countries that are fragile and most in need, but also thematically – security, migration, climate change and human rights.

The Commission proposes to bring together most of its existing instruments into a broad **Neighbourhood, Development and International Cooperation Instrument** with worldwide coverage. The financial architecture will be further simplified via the **integration of the European Development Fund**, to date the EU's main instrument for providing assistance to African, Caribbean and Pacific countries and to overseas countries and territories¹⁶.

¹⁶ The Commission proposal for the integration of the European Development Fund is among the elements requiring an increase of the Own Resources ceiling. It will in addition be essential that the rules governing the Neighbourhood, Development and International Cooperation Instrument include similar flexibility provisions to those in place for the current European Development Fund.

The broad instrument will have ring-fenced budget allocations per geographical region, including the Neighbourhood and Africa. At the same time it will offer more flexibility in responsiveness and a wider range of options for actions to better serve the Union's priorities. This will also include a “**emerging challenges and priorities cushion**” to allow for flexibility in response to existing or emerging urgent priorities, notably in the areas of stability and migration.

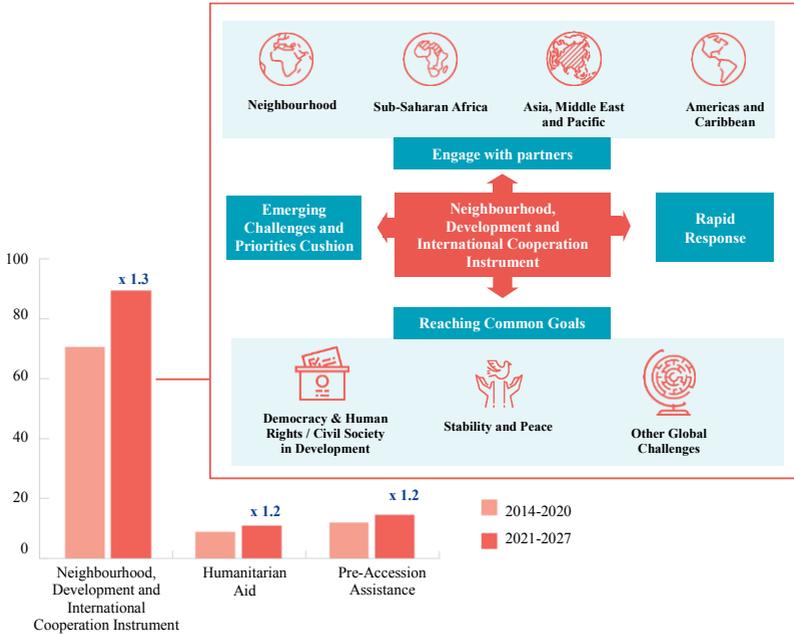
Building on the European External Investment Plan and its European Fund for Sustainable Development, a new **external investment architecture** will allow for the “crowding-in” of additional resources from other donors and from the private sector. This will help to address development challenges, by complementing grants with budget guarantees, other market-based instruments, technical assistance, “blending”, and possible participation in the capital of development financial institutions, allowing to further advance the Union’s objectives and policies. In addition, **macrofinancial assistance** will contribute to addressing economic crises.

The **Instrument for Pre-Accession Assistance** will support candidate countries and potential candidates on their path to fulfilling the accession criteria. It will moreover contribute to the achievement of broader European objectives of ensuring stability, security and prosperity in the immediate neighbourhood of the Union. It will also be positioned in the context of the Western Balkans Strategy and will reflect the developments in relations with Turkey.

Together with its international partners and action by Member States, the Union will continue to play a leading role in humanitarian assistance. The Commission proposes a strengthened **Humanitarian Aid instrument** to provide needs-based delivery of EU assistance to save and preserve lives, prevent and alleviate human suffering, and safeguard the integrity and dignity of populations affected by natural disasters or man-made crises.

Europe as a strong global player

In billion euro, current prices



Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27, including the European Development Fund (estimate)

Source: European Commission

The Union must also contribute to the prevention of crises, restoration of peace, public order, or stabilisation of all countries or regions in the world faced with conflict or disorder. Under the Treaties, the EU budget is not able to cover all EU areas of action in the field of external security and defence. This has hampered the impact, effectiveness and sustainability of the overall EU action. To address this, the High Representative of the Union for Foreign Affairs and Security Policy, with the support of the Commission, will propose a separate extra-budgetary funding mechanism, the **European Peace Facility**. This Facility aims to close the current gap in the EU’s ability to conduct Common Security and Defence Policy missions and to provide military and defence assistance to relevant third countries, international and regional organisations. The Facility will allow the Union to do more and to act more swiftly to prevent conflicts, promote human security, address instability and work towards a safer world.



VII. EUROPEAN PUBLIC ADMINISTRATION

Investing in:

- ▶ An efficient and modern public administration at the service of all Europeans

The European public administration is small in comparison with national and even many regional and local administrations. However, it plays a crucial role in helping the Union to deliver on its priorities and to implement policies and programmes in the common European interest.

In recent years, the European administration has undergone **deep reform**. As part of the agreement on the current Multiannual Financial Framework in December 2013, the reform of the staff regulations introduced **significant efficiency measures**¹⁷. In addition, institutions undertook to **reduce staffing levels by 5%**. The Commission has implemented this commitment in full and other institutions, bodies, and agencies are also implementing this reduction, leading to a decrease of the relative share of the Commission's staff in all European bodies. The Court of Auditors has recently concluded that the reduction has broadly been achieved by all institutions and bodies.

It should be noted that these reforms were made at a time when the Union's staff needed to intensify work, take on new tasks in new priority areas, and address unforeseen challenges such as the migration and refugee crises.

The European public administration should seek to operate as efficiently as possible. The Commission is continually seeking to make the most of synergies and efficiencies. However, the administration must be adequately resourced to deliver on its essential functions. The need to invest in information technologies and the upgrading of buildings will not disappear in the future. The withdrawal of the United Kingdom will result in a limited reorientation of some functions within the administration but the scope of activities will not change – and in some new priority areas will be intensified. Translation and interpretation services in the English language will also remain unaffected.

¹⁷ These reforms included a two-year salary freeze accompanied by an increase of working time to 40 hours a week without compensation, the creation of a more moderate salary scale for secretarial and clerical jobs, and the reduction of annual leave. The reform also substantially affected pension entitlements by means of a reduction in end-of-career salaries, a higher retirement age and reduction of the pension accrual rate.

The ceiling set for the Union’s administrative expenditure in 2020 represents 6.7% of the overall Multiannual Financial Framework. This covers the administrative expenditure of all EU institutions, pensions and the costs of the European Schools. Following the significant efforts made notably by the Commission in the current period, a further reduction would call into question the functioning of the EU institutions and efficient policy delivery and implementation. A strong European Union with many additional tasks entrusted to it by the Member States needs an efficient and agile civil service, **capable of attracting talented people from all Member States** to work for the benefit of all Europeans. The Commission therefore proposes to maintain the situation of administrative spending at its current level¹⁸.

4. MATCHING PRIORITIES WITH RESOURCES

To turn the political priorities agreed at EU level into results on the ground, well-designed programmes must be equipped with sufficient resources to make a difference. As explained in the Commission’s contribution to the Informal Leaders’ Meeting in February¹⁹, decisions taken on levels of financing for the future long-term budget cannot be separated from the Union’s ambitions in each of the priority areas.

The Commission’s proposals are based on a rigorous assessment of the resources needed to deliver efficiently on the Union’s goals, and of the efficiency and added value of spending in each area. Through well-designed programmes, efficient implementation and intelligent combination with other sources of financing, even a modest EU budget can have a significant impact. However, there are limits to what this can achieve and, if Europe wants to move forward together on its positive agenda, it will require a budget to match.

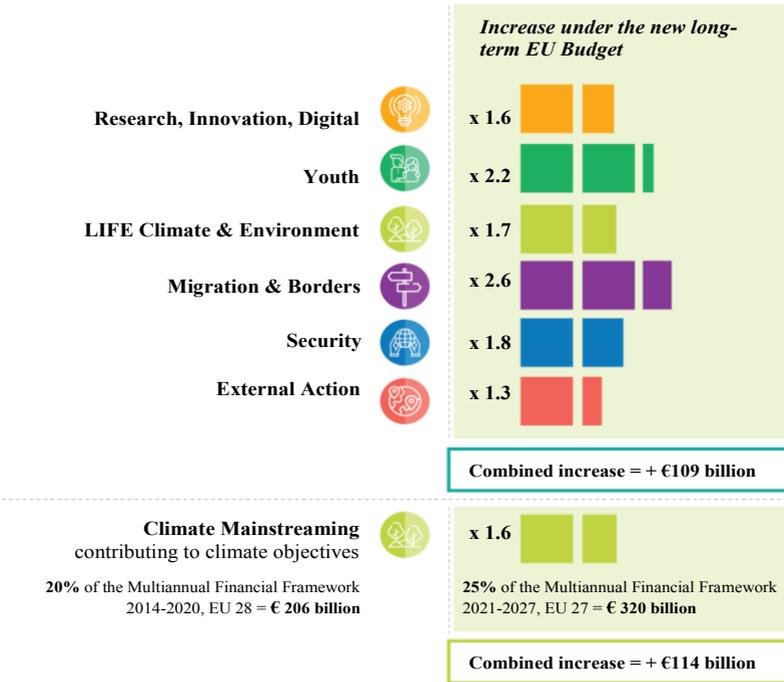
The key challenge for the future EU budget is to provide adequate support for new and existing priorities while also addressing the shortfall in national contributions resulting from the United Kingdom’s withdrawal. The Commission proposes a **balanced approach**. New priorities should be financed predominantly by new resources. The shortfall arising from the United Kingdom’s departure should be partly matched by new resources and partly by savings and redeployments from existing programmes.

In order for the EU budget to make a meaningful contribution in many of the new priority areas, in particular where new instruments are being created, current levels of funding will need to be increased. Investing now in areas such as research and innovation, young people and the digital economy will pay rich dividends for future generations. This is why the Commission proposes significant increases in priority areas.

¹⁸ In the framework of the mid-term review of the Multiannual Financial Framework in 2023, the Commission will reflect on the feasibility of the creation of a capital-based pension fund for EU staff.

¹⁹ COM(2018) 98.

New and reinforced priorities for the Union at 27



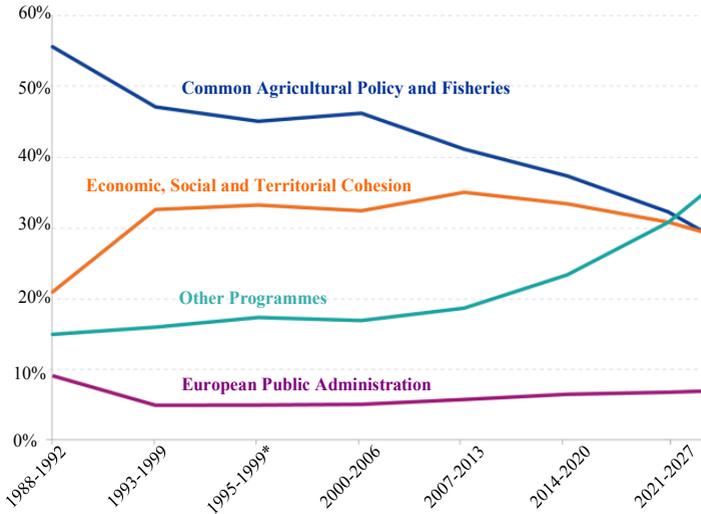
Note: Compared to the Multiannual Financial Framework 2014-2020 at EU-27, including the European Development Fund (estimate)

Source: European Commission

At the same time, the Commission has critically examined where savings can be made without undermining the added value of EU programmes. As part of this effort, the Commission proposes that the budget allocation to the Common Agricultural Policy and Cohesion Policy be moderately reduced to reflect the new context and to free up resources for other activities. The modernisation of these policies will allow them to continue to deliver on their core objectives while also contributing to new priorities. For example, Cohesion Policy will have an increasingly important role to play in supporting structural reform and the integration of migrants.

The result of these changes will be a rebalancing of the budget and an increasing focus on the areas where the European added value is highest.

Evolution of main policy areas in the EU budget



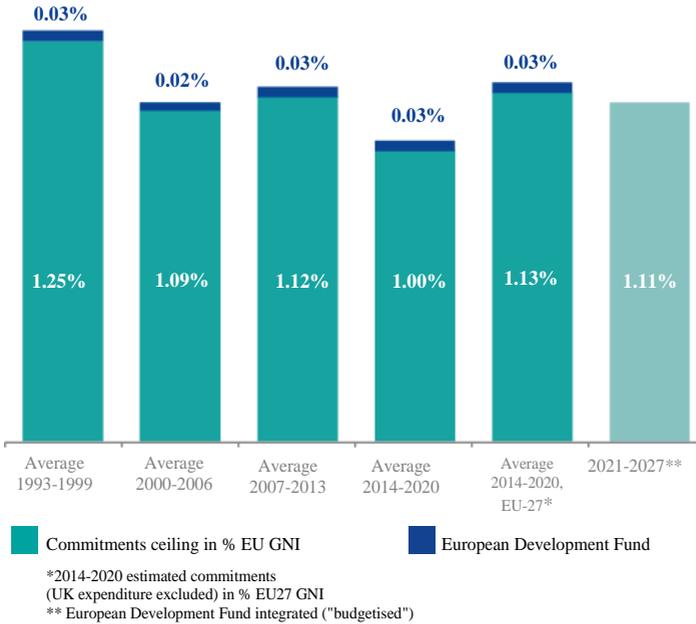
*Adjusted for 1995 enlargement

Source: European Commission

Overall, through a combination of additional contributions and savings, the Commission proposes a Multiannual Financial Framework of EUR 1,279 billion in commitments over the period 2021-2027, equivalent to 1.114% of the EU-27 gross national income. This is comparable to the size of the current Financial Framework in real terms including the European Development Fund²⁰.

²⁰ The European Development Fund corresponds to around 0.03% of the EU-27 gross national income.

The size of the EU budget as a percentage of gross national income (GNI)



This level of commitments translates into EUR 1,246 billion in payments, corresponding to 1.08% of the EU-27 gross national income, to implement the current and future spending programmes until 2027. In order to ensure compliance with the own resources ceiling in force, in particular in the first two years of the next Multiannual Financial Framework, the Commission proposes a reduction of the pre-financing rate for Cohesion Policy and rural development programmes.

The proposed Financial Framework will run for seven years, from 2021 to 2027, with a **mid-term review** in 2023. The Commission recognises the merit of progressively synchronising the duration of the Financial Framework with the five-year political cycle of the European institutions. However, moving to a five-year cycle in 2021 would not offer an optimal alignment²¹. The proposed seven-year cycle will give the Commission taking office following the European elections of 2024 the opportunity to present, if it so chooses, a new framework with a duration of five years, starting in 2028.

²¹ European Parliament Resolution of 14 March 2018 on “The next Multiannual Financial Framework: Preparing the Parliament’s position on the Multiannual Financial Framework post-2020”, point 23.

Main Legal Texts and Policy Documents
for further strengthening of the Economic and Monetary Union 2018 – Part 2

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

(EUR million - current prices)

| Commitment appropriations | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total 2021-2027 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| 1. Single Market, Innovation and Digital | 25.421 | 25.890 | 26.722 | 26.604 | 27.000 | 27.703 | 28.030 | 187.370 |
| 2. Cohesion and Values | 54.593 | 58.636 | 61.897 | 63.741 | 65.645 | 69.362 | 68.537 | 442.412 |
| Of which: Economic, social and territorial cohesion | 48.388 | 49.890 | 51.505 | 53.168 | 54.880 | 56.647 | 58.521 | 373.000 |
| 3. Natural Resources and Environment | 53.403 | 53.667 | 53.974 | 54.165 | 54.363 | 54.570 | 54.778 | 378.920 |
| Of which: Market related expenditure and direct payments | 40.300 | 40.527 | 40.791 | 40.931 | 41.072 | 41.214 | 41.357 | 286.195 |
| 4. Migration and Border Management | 3.264 | 4.567 | 4.873 | 5.233 | 5.421 | 5.678 | 5.866 | 34.902 |
| 5. Security and Defence | 3.347 | 3.495 | 3.514 | 3.695 | 4.040 | 4.386 | 5.039 | 27.515 |
| 6. Neighbourhood and the World | 15.669 | 16.054 | 16.563 | 17.219 | 18.047 | 19.096 | 20.355 | 123.002 |
| 7. European Public Administration | 11.024 | 11.385 | 11.819 | 12.235 | 12.532 | 12.949 | 13.343 | 85.287 |
| Of which: Administrative expenditure of the institutions | 8.625 | 8.877 | 9.197 | 9.496 | 9.663 | 9.951 | 10.219 | 66.028 |
| TOTAL COMMITMENT APPROPRIATIONS | 166.721 | 173.684 | 179.363 | 182.892 | 187.047 | 193.743 | 195.947 | 1.279.408 |
| as a percentage of GNI* | 1,12% | 1,13% | 1,13% | 1,12% | 1,11% | 1,11% | 1,09% | 1,11% |

| TOTAL PAYMENT APPROPRIATIONS | 159.359 | 163.969 | 177.350 | 180.897 | 184.515 | 188.205 | 191.969 | 1.246.263 |
|---|---------|---------|---------|---------|---------|---------|---------|-----------|
| as a percentage of GNI | 1,07% | 1,07% | 1,12% | 1,10% | 1,09% | 1,08% | 1,07% | 1,09% |
| Margin available | 0,22% | 0,22% | 0,17% | 0,19% | 0,20% | 0,21% | 0,22% | 0,21% |
| Own Resources ceiling as a percentage of GNI* | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% |

*The percentages are without prejudice to the ceiling set out in the Own Resources Decision in force

OUTSIDE THE MFF CEILINGS

| Special Instruments: | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Emergency aid reserve | 637 | 649 | 662 | 676 | 689 | 703 | 717 | 4.734 |
| European Globalisation Adjustment Fund (EGF) | 212 | 216 | 221 | 225 | 230 | 234 | 239 | 1.578 |
| European Union Solidarity Fund (EUSF) | 637 | 649 | 662 | 676 | 689 | 703 | 717 | 4.734 |
| Flexibility instrument | 1.061 | 1.082 | 1.104 | 1.126 | 1.149 | 1.172 | 1.195 | 7.889 |
| European Investment Stabilisation Function* | p.m. |
| European Peace Facility | 800 | 1.050 | 1.300 | 1.550 | 1.800 | 2.000 | 2.000 | 10.500 |
| TOTAL OUTSIDE THE MFF CEILINGS | 3.347 | 3.648 | 3.950 | 4.253 | 4.557 | 4.812 | 4.868 | 29.434 |

| TOTAL MFF + OUTSIDE THE MFF CEILINGS | 170.068 | 177.341 | 183.313 | 187.145 | 191.604 | 198.555 | 200.816 | 1.308.843 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|-----------|
| as a percentage of GNI | 1,14% | 1,15% | 1,16% | 1,14% | 1,13% | 1,14% | 1,11% | 1,14% |

*For the European Investment Stabilisation Function an interest rate subsidy will be provided through external assigned revenues equivalent to a share of monetary income. Current prices are calculated by applying annually a fixed deflator of 2% to the amounts in 2018 prices.

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

(EUR million - 2018 prices)

| Commitment appropriations | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total 2021-2027 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| 1. Single Market, Innovation and Digital | 23.955 | 23.918 | 24.203 | 23.624 | 23.505 | 23.644 | 23.454 | 166.303 |
| 2. Cohesion and Values | 51.444 | 54.171 | 56.062 | 56.600 | 57.148 | 59.200 | 57.349 | 391.974 |
| Of which: Economic, social and territorial cohesion | 45.597 | 46.091 | 46.650 | 47.212 | 47.776 | 48.348 | 48.968 | 330.642 |
| 3. Natural Resources and Environment | 50.323 | 49.580 | 48.886 | 48.097 | 47.326 | 46.575 | 45.836 | 336.623 |
| Of which: Market related expenditure and direct payments | 37.976 | 37.441 | 36.946 | 36.346 | 35.756 | 35.176 | 34.606 | 254.247 |
| 4. Migration and Border Management | 3.076 | 4.219 | 4.414 | 4.647 | 4.719 | 4.846 | 4.908 | 30.829 |
| 5. Security and Defence | 3.154 | 3.229 | 3.183 | 3.281 | 3.517 | 3.743 | 4.216 | 24.323 |
| 6. Neighbourhood and the World | 14.765 | 14.831 | 15.002 | 15.290 | 15.711 | 16.298 | 17.032 | 108.929 |
| 7. European Public Administration | 10.388 | 10.518 | 10.705 | 10.864 | 10.910 | 11.052 | 11.165 | 75.602 |
| Of which: Administrative expenditure of the institutions | 8.128 | 8.201 | 8.330 | 8.432 | 8.412 | 8.493 | 8.551 | 58.547 |
| TOTAL COMMITMENT APPROPRIATIONS | 157.105 | 160.466 | 162.455 | 162.403 | 162.836 | 165.358 | 163.960 | 1.134.583 |
| as a percentage of GNI | 1,12% | 1,13% | 1,13% | 1,12% | 1,11% | 1,11% | 1,09% | 1,11% |

| TOTAL PAYMENT APPROPRIATIONS | 150.168 | 151.482 | 160.631 | 160.631 | 160.631 | 160.631 | 160.631 | 1.104.805 |
|---|---------|---------|---------|---------|---------|---------|---------|-----------|
| as a percentage of GNI | 1,07% | 1,07% | 1,12% | 1,10% | 1,09% | 1,08% | 1,07% | 1,08% |
| Margin available | 0,22% | 0,22% | 0,17% | 0,19% | 0,20% | 0,21% | 0,22% | 0,21% |
| Own Resources ceiling as a percentage of GNI* | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% | 1,29% |

*The percentages are without prejudice to the ceiling set out in the Own Resources Decision in force

OUTSIDE THE MFF CEILINGS

| Special Instruments: | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Emergency aid reserve | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 4.200 |
| European Globalisation Adjustment Fund (EGF) | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 1.400 |
| European Union Solidarity Fund (EUSF) | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 4.200 |
| Flexibility instrument | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 7.000 |
| European Investment Stabilisation Function* | p.m. |
| European Peace Facility | 753 | 970 | 1.177 | 1.376 | 1.567 | 1.707 | 1.673 | 9.223 |
| TOTAL OUTSIDE THE MFF | 3.153 | 3.370 | 3.577 | 3.776 | 3.967 | 4.107 | 4.073 | 26.023 |

| TOTAL MFF + OUTSIDE THE MFF | 160.258 | 163.836 | 166.032 | 166.179 | 166.803 | 169.465 | 168.033 | 1.160.606 |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|-----------|
| as a percentage of GNI | 1,14% | 1,15% | 1,16% | 1,14% | 1,13% | 1,14% | 1,11% | 1,14% |

*For the European Investment Stabilisation Function an interest rate subsidy will be provided through external assigned revenues equivalent to a share of monetary income.

Recent experience has shown that flexibility within the framework is paramount. The numerous challenges that the Union has faced in recent years have **stretched the existing flexibilities to their limits**. The EU budget must be flexible enough to allow the Union to respond quickly and effectively to unforeseen needs. The Commission is therefore proposing to revamp the existing flexibility mechanisms and to introduce a new “**Union Reserve**”.

- ▶ **Flexibility within and between programmes.** The Commission will propose built-in reserves to create flexibility within programmes. In addition, it is proposed that the amount that can be transferred from one programme to another within the same heading will be increased from 10% to 15%. The Commission also proposes the possibility of “blending” different forms of financial support, moving between different modes of management, “reprogramming” funding at mid-term as well as specific revisions of national allocations to adjust to developments over the period. This will increase flexibility still further, while preserving the fairness of the system.
- ▶ **Flexibility between headings and years.** Beyond ensuring sufficient unallocated margins, the Commission proposes to fully exploit the Global Margin for Payments introduced under the current framework. The Commission proposes to expand the size and scope of the Global Margin for Commitments in order to establish a “**Union Reserve**”. This will be financed from margins left available under the ceilings for commitments of the previous financial year, as well as through funds that have been committed to the EU budget but ultimately not spent in the implementation of programmes. This Reserve is a powerful new tool to tackle unforeseen events and to respond to emergencies in areas such as security and migration. It will also help address the economic and social consequences of trade disruptions once other available instruments have been exploited.
- ▶ **“Special instruments”.** The Commission has reviewed the scope of special instruments such as the Emergency Aid Reserve, the European Union Solidarity Fund and the European Globalisation Adjustment Fund. These instruments allow additional financial means to be entered in the EU budget over and above the ceilings set for the Financial Framework. The Commission proposes, where appropriate, to widen the scope of the instruments, for instance by allowing the activation of the Emergency Aid Reserve for emergencies inside the EU. The Commission also proposes to streamline the procedures for mobilising these instruments, and to increase the size of the flexibility instrument to EUR 1 billion (in 2018 prices²²) per year.

5. A MODERN SYSTEM FOR FINANCING THE EU BUDGET

The spending and revenue sides of the budget are two sides of the same coin. Both require modernisation to maximise the contribution of the EU budget to the Union’s political priorities. In line with the recommendations of the High Level Group on the “Future Financing of the EU”, chaired by Mario Monti²³, the Commission proposes to modernise and simplify the existing Own Resources system and diversify the sources of revenue.

With the withdrawal of the United Kingdom, the associated budgetary rebate will end. The same is true for the rebates on the United Kingdom rebate that have been granted to some

²² EUR 1,127 billion in current prices.

²³ See the report on “Future financing of the EU” presented in January 2017 by the High Level Group set up jointly by the European Parliament, the Council and the European Commission and chaired by Mario Monti.

Member States. Rebates related to reduced call rates for the Value Added Tax-based Own Resource and the lump sum reductions for contributions based on gross national income will automatically expire at the end of 2020.

This presents an opportunity to simplify and reform the system, and to strengthen the alignment with Union policies and priorities. The Commission proposes to eliminate all corrections on the revenue side as part of a fair and balanced budget package. The collection costs retained by Member States from the traditional Own Resources will be restored from 20% to the original level of 10% to better align financial support for customs equipment, staff and information with the actual costs and needs. The impact of these measures in relation to the burden of customs control will be closely monitored.²⁴

The elimination of all rebates and the reduction of collection costs for custom revenue will increase the fairness of the Multiannual Financial Framework. However, the elimination of rebates will entail significant increases of contributions for certain Member States in the next Multiannual Financial Framework compared to their current situation.

In order to avoid a significant and sudden increase in their contribution as of 2021 of these Member States, it is proposed to phase out the current rebates over time. For this purpose all corrections on the revenue side of the budget will be transformed into transparent lump sum payments per Member State. These lump sums should be gradually decreased over five years until the national contributions (measured in percent of gross national income) reach a fair level comparable to other Member States not benefiting from a rebate.

As part of the modernisation of the Own Resources system and in addition to the traditional customs duties and gross national income-based contributions to the EU budget, the Commission proposes to **simplify the current Value Added Tax** based Own Resource, to base it on standard rated supplies only, while remaining fully compatible with the recent Commission proposal for a definitive Value Added Tax system in the EU. The Commission also proposes to forge a stronger link between the financing of the budget and the Union's policies by introducing a **basket of new Own Resources**. This basket is composed of a share of revenues from:

- ▶ **Emissions Trading System:** the European Emissions Trading System is a key tool of EU action to reduce greenhouse gas emissions cost effectively and has a direct link with the functioning of the Single Market. The Commission proposes to allocate a share of 20% of the Emissions Trading System revenues to the EU budget, while protecting the correction mechanisms already embedded in the system.

²⁴ Member States with specific challenges with respect to customs control will be able to benefit from a strengthened CUSTOMS programme. Furthermore, the Integrated Border Management Fund, specifically with the new Customs Control Equipment component, will help national customs to procure equipment. Finally, the Structural Reform Support Programme will provide assistance in the field of improving administrative capacity of customs.

- ▶ The relaunched **Common Consolidated Corporate Tax Base**, to be phased in once the necessary legislation has been adopted. This will link the financing of the EU budget directly to the benefits enjoyed by companies operating in the Single Market.
- ▶ **A national contribution calculated on the amount of non-recycled plastic packaging waste**. This will create an incentive for Member States to reduce packaging waste and stimulate Europe's transition towards a circular economy by implementing the European plastics strategy.

On the basis of the Commission's proposals, the new Own Resources could contribute on average EUR 22 billion per year corresponding to about 12% of total EU budget revenue. The new Own Resources will contribute to financing the new priorities in the budget. This will also allow national contributions based on gross national income to be reduced accordingly.

The proposed reforms of the system of Own Resources are about changing the way the budget is funded, not about its overall size. Diversifying the sources of budgetary income will increase the resilience of the EU budget. Coupled with the gradual rebalancing of the budget from nationally allocated programmes towards new priorities, this will help to sharpen the focus on European added value and help ensure that both sides of the budget contribute to the Union's political priorities.

The integration of the European Development Fund into the EU budget will need to be accompanied by an increase in the ceilings established in the Own Resources decision. A sufficient margin between the payments and the own resources ceiling is necessary to ensure that the Union is able - under any circumstances - to fulfil its financial obligations, even in times of economic downturns. The Commission proposes to increase the own resources ceilings for payments and commitments to 1.29% and 1.35% of the EU-27 gross national income, respectively.

6. CONCLUSION – A FRESH START FOR THE UNION AT 27

The Commission's proposals on the future Multiannual Financial Framework are the beginning of a process that will determine whether the Union has the means to deliver on the positive agenda agreed in Bratislava and Rome. The final decision will fall to the Council, acting by unanimity, with the consent of the European Parliament.

A balanced agreement on a modern EU budget will show that the Union is united, reinvigorated and ready to move forward together.

The proposals are based on an honest assessment of the resources the Union will need to deliver on its collective ambitions. They offer a fair and balanced approach to the challenges of supporting political priorities and addressing the financial consequences of the

withdrawal of the United Kingdom. They show how a reformed, simpler, and more flexible budget will allow the Union to put every euro to work for all Member States and all Europeans.

Building on these foundations, the Commission will present detailed proposals for the future financial programmes between 29 May and 12 June. It will then be for the European Parliament and the Council to take them further.

Negotiations on the current Multiannual Financial Framework took too long. As a result, the launch of key financial programmes was delayed. This was more than an administrative inconvenience. It meant that projects with real potential to spur the economic recovery were postponed and vital sources of funding took longer to reach those who needed it.

This is why it is our duty to all Europeans to approach the upcoming negotiations on the long-term EU budget with the clear objective of finding an agreement before the European Parliament elections and the Leaders' Summit in Sibiu on 9 May 2019.

The Commission will do everything in its power to make a swift agreement possible. We are proposing today a fair and balanced package that, if agreed, will equip the Union at 27 with a budget that delivers efficiently for all. A positive budget for a positive agenda. A modern budget for a Union that protects, empowers and defends. A budget that will prepare our Union well for the future

Overall levels of commitments per programme for the whole duration of the Multiannual Financial Framework

| MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027 (IN COMMITMENTS) | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|------------------|
| Current prices | | | | | | | | | |
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | | 2021-2027 |
| 1. Single Market, Innovation and Digital | 25.421 | 25.890 | 26.722 | 26.604 | 27.000 | 27.703 | 28.030 | | 187.370 |
| 1. Research and Innovation | 13.905 | 14.001 | 14.603 | 14.644 | 14.801 | 15.262 | 15.356 | | 102.573 |
| Horizon Europe | 13.119 | 13.385 | 13.654 | 13.931 | 14.215 | 14.500 | 14.796 | | 97.600 |
| <i>Of which under the InvestEU Fund</i> | 470 | 490 | 489 | 500 | 510 | 520 | 531 | | 3.600 |
| <i>Of which research and innovation in food, agriculture, rural development and the bioeconomy</i> | 1.345 | 1.372 | 1.399 | 1.427 | 1.456 | 1.485 | 1.516 | | 10.000 |
| Euronext Research and Training Programme | 322 | 328 | 335 | 341 | 349 | 356 | 369 | | 2.400 |
| International Thermonuclear Experimental Reactor (ITER) | 934 | 768 | 1.103 | 872 | 746 | 926 | 722 | | 6.070 |
| Other | 0,3 | 0,4 | 0,4 | 0,4 | 0,4 | 0,4 | 0,4 | | 3 |
| European Strategic Investments | 6.825 | 7.107 | 7.244 | 6.988 | 7.129 | 7.289 | 7.411 | | 49.973 |
| InvestEU Fund | 1.980 | 2.020 | 2.061 | 2.104 | 2.146 | 2.189 | 2.228 | | 14.725 |
| Connecting Europe Facility - Transport | 1.725 | 1.760 | 1.795 | 1.831 | 1.869 | 1.906 | 1.944 | | 12.830 |
| Connecting Europe Facility - Energy | 1.163 | 1.186 | 1.210 | 1.235 | 1.260 | 1.285 | 1.311 | | 8.650 |
| Connecting Europe Facility - Digital | 403 | 411 | 420 | 428 | 437 | 445 | 456 | | 3.000 |
| Digital Europe Programme | 1.338 | 1.513 | 1.538 | 1.167 | 1.190 | 1.213 | 1.237 | | 9.194 |
| Other | 27 | 27 | 28 | 29 | 29 | 30 | 30 | | 200 |
| Decentralised agencies | 189 | 190 | 192 | 195 | 198 | 202 | 207 | | 1.374 |
| 2. Single Market | 869 | 883 | 897 | 911 | 927 | 944 | 960 | | 6.391 |
| Single Market Programme (incl. COSME) | 827 | 841 | 856 | 870 | 884 | 899 | 912 | | 6.089 |
| <i>Of which under the InvestEU Fund</i> | 268 | 274 | 280 | 286 | 291 | 297 | 304 | | 2.000 |
| EU Anti-Fraud Programme | 24 | 24 | 25 | 26 | 26 | 27 | 29 | | 181 |
| Cooperation in the field of taxation (FISCALIS) | 34 | 34 | 36 | 37 | 40 | 43 | 46 | | 270 |
| Cooperation in the field of customs (CUSTOMS) | 127 | 130 | 133 | 136 | 138 | 141 | 144 | | 950 |
| Other | 13 | 13 | 14 | 14 | 14 | 15 | 15 | | 98 |
| Decentralised agencies | 112 | 113 | 114 | 116 | 116 | 117 | 118 | | 804 |
| 4. Space | 2.189 | 2.224 | 2.270 | 2.319 | 2.366 | 2.414 | 2.463 | | 16.235 |
| European Space Programme | 2.149 | 2.192 | 2.238 | 2.286 | 2.331 | 2.378 | 2.426 | | 16.000 |
| Decentralised agencies | 31 | 32 | 32 | 33 | 34 | 36 | 37 | | 235 |
| Margin | 1.642 | 1.708 | 1.675 | 1.718 | 1.778 | 1.813 | 1.839 | | 13.98 |
| 2. Cohesion and Values | 54.593 | 58.636 | 61.897 | 63.741 | 65.645 | 69.362 | 68.537 | | 442.412 |
| 5. Regional Development and Cohesion | 35.436 | 36.539 | 37.725 | 38.946 | 40.203 | 41.502 | 42.888 | | 273.240 |
| European Regional Development Fund | 29.440 | 30.328 | 31.293 | 32.320 | 33.333 | 34.338 | 35.426 | | 228.308 |
| Cohesion Fund | 5.964 | 6.178 | 6.412 | 6.653 | 6.901 | 7.158 | 7.427 | | 46.692 |
| <i>Of which contribution to the Connecting Europe Facility - Transport</i> | 1.441 | 1.490 | 1.550 | 1.608 | 1.668 | 1.730 | 1.795 | | 11.285 |
| Support to the Turkish-Cypriot Community | 32 | 34 | 34 | 35 | 36 | 36 | 36 | | 240 |
| 6. Economic and Monetary Union * | 1.350 | 3.653 | 4.956 | 4.659 | 4.162 | 5.165 | 1.168 | | 25.113 |
| Reform Support Programme (incl. Reform Delivery Tool and Governance Facility) | 1.335 | 3.637 | 4.940 | 4.643 | 4.146 | 5.149 | 1.151 | | 25.000 |
| Protection of the Euro Against Counterfeiting | 1,0 | 1,1 | 1,1 | 1,1 | 1,1 | 1,1 | 1,2 | | 8 |
| Other | 14 | 14 | 15 | 15 | 15 | 16 | 16 | | 105 |
| 7. Investing in People, Social Cohesion and Values | 17.197 | 17.823 | 18.582 | 19.488 | 20.620 | 22.022 | 23.778 | | 138.290 |
| European Social Fund+ | 13.141 | 13.545 | 13.978 | 14.424 | 14.882 | 15.356 | 15.848 | | 101.174 |
| <i>Of which health, employment and social innovation</i> | 157 | 160 | 164 | 168 | 171 | 174 | 179 | | 1.174 |
| Erasmus+ | 2.959 | 3.143 | 3.441 | 3.862 | 4.513 | 5.408 | 6.654 | | 30.000 |
| European Solidarity Corps | 148 | 153 | 161 | 172 | 187 | 207 | 232 | | 1.270 |
| Creative Europe | 249 | 254 | 259 | 264 | 270 | 275 | 279 | | 1.850 |
| Justice, Rights and Values | 134 | 135 | 136 | 136 | 136 | 136 | 135 | | 947 |
| Other | 186 | 187 | 189 | 191 | 192 | 194 | 195 | | 1.334 |
| Decentralised agencies | 379 | 406 | 419 | 420 | 440 | 447 | 454 | | 2.965 |
| Margin | 610 | 624 | 640 | 647 | 660 | 673 | 682 | | 4.528 |
| 3. Natural Resources and Environment | 53.403 | 53.667 | 53.974 | 54.165 | 54.363 | 54.570 | 54.778 | | 378.920 |
| 8. Agriculture and Maritime Policy | 52.536 | 52.782 | 53.066 | 53.227 | 53.389 | 53.552 | 53.712 | | 372.264 |
| European Agricultural Guarantee Fund (EAGF) | 40.300 | 40.527 | 40.791 | 40.931 | 41.072 | 41.214 | 41.357 | | 286.195 |
| European Agricultural Fund for Rural Development (EAFRD) | 11.259 | 11.259 | 11.259 | 11.259 | 11.259 | 11.259 | 11.259 | | 78.811 |
| European Maritime and Fisheries Fund | 827 | 843 | 860 | 877 | 895 | 913 | 926 | | 6.140 |
| Other | 133 | 136 | 139 | 141 | 144 | 147 | 149 | | 990 |
| Decentralised agencies | 17 | 17 | 18 | 18 | 18 | 19 | 19 | | 128 |
| 9. Environment and Climate Action | 744 | 759 | 780 | 807 | 840 | 882 | 928 | | 5.739 |
| Programme for Environment and Climate Action (LIFE) | 703 | 718 | 738 | 765 | 799 | 840 | 887 | | 5.450 |
| Decentralised agencies | 41 | 41 | 41 | 41 | 41 | 41 | 41 | | 289 |
| Margin | 123 | 126 | 128 | 132 | 134 | 136 | 139 | | 918 |
| 4. Migration and Border Management | 3.264 | 4.567 | 4.873 | 5.233 | 5.421 | 5.678 | 5.866 | | 34.902 |
| 10. Migration | 1.940 | 1.563 | 1.585 | 1.741 | 1.763 | 1.785 | 1.803 | | 11.280 |
| Asylum and Migration Fund | 923 | 1.445 | 1.464 | 1.617 | 1.637 | 1.657 | 1.672 | | 10.415 |
| Decentralised agencies | 116 | 119 | 121 | 124 | 126 | 129 | 131 | | 865 |
| 11. Border Management | 1.917 | 2.689 | 2.968 | 3.165 | 3.354 | 3.552 | 3.716 | | 21.331 |
| Integrated Border Management Fund | 786 | 1.337 | 1.353 | 1.436 | 1.453 | 1.470 | 1.483 | | 9.318 |
| Decentralised agencies | 1.130 | 1.352 | 1.615 | 1.729 | 1.871 | 2.082 | 2.234 | | 12.013 |
| Margin | 308 | 315 | 320 | 327 | 334 | 340 | 346 | | 2.291 |
| 5. Security and Defence | 3.347 | 3.495 | 3.514 | 3.695 | 4.040 | 4.386 | 5.039 | | 27.515 |
| 12. Security | 543 | 664 | 655 | 709 | 725 | 742 | 769 | | 4.806 |
| Internal Security Fund | 228 | 344 | 349 | 388 | 393 | 398 | 401 | | 2.500 |
| Nuclear Decommissioning (Lithuania) | 73 | 79 | 71 | 84 | 84 | 84 | 82 | | 500 |
| Nuclear safety and decommissioning (incl. for Bulgaria and Slovakia) | 91 | 93 | 70 | 76 | 85 | 97 | 114 | | 626 |
| Decentralised agencies | 152 | 155 | 158 | 161 | 164 | 168 | 171 | | 1.128 |
| 13. Defence | 2.373 | 2.391 | 2.410 | 2.528 | 2.847 | 3.166 | 3.795 | | 21.010 |
| European Defence Fund | 1.500 | 1.500 | 1.500 | 1.600 | 1.900 | 2.200 | 2.800 | | 13.000 |
| Military Mobility | 873 | 891 | 910 | 928 | 947 | 966 | 985 | | 6.500 |
| 14. Crisis Response | 187 | 192 | 196 | 204 | 208 | 212 | 214 | | 1.400 |
| Union Civil Protection Mechanism (rescEU) | 187 | 192 | 196 | 200 | 204 | 208 | 212 | | 1.400 |
| Other | p.m. | | |
| Margin | 244 | 245 | 248 | 258 | 264 | 268 | 273 | | 1.800 |
| 6. Neighbourhood and the World | 15.669 | 16.054 | 16.563 | 17.219 | 18.047 | 19.096 | 20.355 | | 123.002 |
| 15. External Action | 13.278 | 13.614 | 14.074 | 14.680 | 15.458 | 16.454 | 17.662 | | 105.219 |
| Neighbourhood, Development and International Cooperation Instrument | 11.221 | 11.514 | 11.928 | 12.455 | 13.359 | 14.655 | 16.175 | | 89.600 |
| Humanitarian Aid | 1.478 | 1.509 | 1.539 | 1.571 | 1.602 | 1.634 | 1.667 | | 11.000 |
| Common Foreign and Security Policy (CFSP) | 348 | 361 | 380 | 408 | 446 | 496 | 560 | | 3.000 |
| Overseas Countries and Territories (including Greenland) | 67 | 70 | 75 | 79 | 83 | 87 | 91 | | 500 |
| Other | 143 | 146 | 150 | 153 | 156 | 159 | 164 | | 1.070 |
| Decentralised agencies | 21 | 21 | 21 | 21 | 21 | 21 | 21 | | 149 |
| 16. Pre-accession assistance | 1.949 | 1.989 | 2.029 | 2.070 | 2.111 | 2.154 | 2.198 | | 14.500 |
| Pre-Accession Assistance | 1.949 | 1.989 | 2.029 | 2.070 | 2.111 | 2.154 | 2.198 | | 14.500 |
| Margin | 441 | 451 | 460 | 469 | 478 | 488 | 495 | | 3.283 |
| 7. European Public Administration | 11.024 | 11.385 | 11.460 | 12.233 | 12.532 | 12.949 | 13.343 | | 85.287 |
| European Schools and Pensions | 2.398 | 2.508 | 2.622 | 2.739 | 2.869 | 2.998 | 3.124 | | 19.500 |
| Administrative expenditure of the institutions | 8.625 | 8.877 | 9.197 | 9.496 | 9.663 | 9.951 | 10.219 | | 66.028 |
| TOTAL | 166.721 | 173.694 | 179.363 | 182.892 | 187.047 | 193.743 | 198.947 | | 1.279.408 |
| In % GNI (EU-27) | 1,12% | 1,13% | 1,13% | 1,13% | 1,12% | 1,11% | 1,09% | | 1,11% |

* For the European Investment Stabilisation Function an interest rate subsidy will be provided through external assigned revenues equivalent to a share of monetary income. Current prices are calculated by applying annually a fixed deflator of 2% to the amounts in 2018 prices.

Overall levels of commitments per programme for the whole duration of the Multiannual Financial Framework

MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027 (IN COMMITMENTS)

| 2018 prices | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2021-2027 |
|--|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| 1. Single Market, Innovation and Digital | | 23.955 | 23.918 | 24.203 | 23.624 | 23.505 | 23.644 | | 166.303 |
| 1. Research and Innovation | | 13.103 | 12.935 | 13.226 | 13.004 | 12.885 | 13.026 | 12.849 | 91.028 |
| Horizon Europe | | 12.362 | 12.365 | 12.367 | 12.370 | 12.375 | 12.376 | 12.381 | 86.596 |
| <i>Of which under the InvestEU Fund</i> | | 443 | 443 | 443 | 444 | 444 | 444 | 444 | 3.705 |
| <i>Of which research and innovation in food, agriculture, rural development and the bioeconomy</i> | | 1.267 | 1.268 | 1.267 | 1.267 | 1.267 | 1.267 | 1.267 | 8.673 |
| European Research and Training Programme | | 303 | 303 | 303 | 303 | 304 | 304 | 309 | 2.629 |
| International Thermonuclear Experimental Reactor (ITER) | | 880 | 709 | 999 | 774 | 650 | 790 | 604 | 5.406 |
| Other | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 2.0 |
| 2. European Strategic Investments | | 6.431 | 6.596 | 6.561 | 6.205 | 6.206 | 6.204 | 6.201 | 44.375 |
| InvestEU Fund | | 1.866 | 1.866 | 1.867 | 1.868 | 1.868 | 1.868 | 1.862 | 13.065 |
| Connecting Europe Facility - Transport | | 1.626 | 1.626 | 1.626 | 1.626 | 1.627 | 1.627 | 1.627 | 11.384 |
| Connecting Europe Facility - Energy | | 1.096 | 1.096 | 1.096 | 1.097 | 1.097 | 1.097 | 1.097 | 7.675 |
| Connecting Europe Facility - Digital | | 380 | 380 | 380 | 380 | 380 | 380 | 382 | 2.662 |
| Digital Europe Programme | | 1.260 | 1.397 | 1.393 | 1.036 | 1.036 | 1.035 | 1.035 | 8.192 |
| Other | | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 177 |
| Decentralised agencies | | 178 | 178 | 174 | 173 | 172 | 173 | 173 | 1.220 |
| 3. Single Market | | 818 | 815 | 812 | 809 | 807 | 806 | 804 | 5.672 |
| Single Market Programme (incl. COSME) | | 779 | 777 | 775 | 772 | 770 | 767 | 763 | 5.404 |
| <i>Of which under the InvestEU Fund</i> | | 253 | 253 | 254 | 254 | 254 | 254 | 254 | 1.774 |
| EU Anti-Fraud Programme | | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 24 |
| Cooperation in the field of taxation (FISCALIS) | | 32 | 32 | 32 | 33 | 35 | 37 | 39 | 239 |
| Cooperation in the field of customs (CUSTOMS) | | 120 | 121 | 121 | 121 | 121 | 121 | 121 | 843 |
| Other | | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 87 |
| Decentralised agencies | | 106 | 104 | 103 | 102 | 101 | 100 | 98 | 714 |
| 4. Space | | 2.054 | 2.054 | 2.053 | 2.059 | 2.059 | 2.060 | 2.061 | 14.404 |
| European Space Programme | | 2.025 | 2.025 | 2.027 | 2.030 | 2.030 | 2.030 | 2.030 | 14.196 |
| Decentralised agencies | | 29 | 29 | 29 | 29 | 30 | 30 | 31 | 208 |
| 2. Cohesion and Values | | 51.444 | 51.471 | 56.062 | 56.600 | 57.148 | 59.200 | 57.349 | 391.974 |
| 5. Regional Development and Cohesion | | 33.392 | 33.756 | 34.169 | 34.583 | 35.000 | 35.421 | 35.887 | 242.209 |
| European Regional Development Fund | | 27.742 | 28.018 | 28.331 | 28.646 | 28.961 | 29.281 | 29.643 | 200.622 |
| Cohesion Fund | | 5.620 | 5.705 | 5.807 | 5.907 | 6.000 | 6.110 | 6.214 | 41.704 |
| <i>Of which contribution to the Connecting Europe Facility - Transport</i> | | 1.358 | 1.380 | 1.404 | 1.428 | 1.452 | 1.477 | 1.502 | 10.000 |
| Support to the Turkish-Cypriot Community | | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 213 |
| 6. Economic and Monetary Union * | | 1.272 | 3.375 | 4.469 | 4.137 | 3.623 | 4.409 | 977 | 22.281 |
| Reform Support Programme (incl. Reform Delivery Tool and Governance Facility) | | 1.258 | 3.360 | 4.474 | 4.123 | 3.609 | 4.394 | 963 | 22.181 |
| Protection of the Euro Against Counterfeiting | | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 7 |
| Other | | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 93 |
| 7. Investing in People, Social Cohesion and Values | | 16.205 | 16.466 | 16.831 | 17.305 | 17.951 | 18.795 | 19.913 | 123.466 |
| European Social Fund | | 12.383 | 12.513 | 12.661 | 12.888 | 13.266 | 13.106 | 13.251 | 89.888 |
| <i>Of which health, employment and social innovation</i> | | 148 | 148 | 149 | 149 | 149 | 149 | 150 | 1.042 |
| Erasmus+ | | 2.789 | 2.904 | 3.116 | 3.447 | 3.929 | 4.615 | 5.568 | 26.388 |
| European Solidarity Corps | | 140 | 141 | 142 | 143 | 143 | 143 | 144 | 1.113 |
| Creative Europe | | 235 | 235 | 235 | 235 | 235 | 235 | 233 | 1.642 |
| Justice, Rights and Values | | 127 | 125 | 123 | 121 | 118 | 116 | 113 | 841 |
| Other | | 175 | 173 | 171 | 169 | 167 | 166 | 164 | 1.185 |
| Decentralised agencies | | 358 | 373 | 379 | 373 | 381 | 381 | 380 | 2.629 |
| Margin | | 574 | 574 | 574 | 574 | 575 | 575 | 572 | 4.018 |
| 3. Natural Resources and Environment | | 50.323 | 49.580 | 48.886 | 48.097 | 47.326 | 46.575 | 45.836 | 336.623 |
| 8. Agriculture and Maritime Policy | | 49.506 | 48.763 | 48.064 | 47.264 | 46.478 | 45.706 | 44.943 | 330.724 |
| European Agricultural Guarantee Fund (EAGF) | | 37.976 | 37.441 | 36.946 | 36.346 | 35.756 | 35.176 | 34.606 | 254.247 |
| European Agricultural Fund for Rural Development (EAFRD) | | 10.609 | 10.401 | 10.197 | 9.997 | 9.801 | 9.609 | 9.421 | 70.037 |
| European Maritime and Fisheries Fund * | | 779 | 779 | 779 | 779 | 779 | 779 | 779 | 5.448 |
| Other | | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 878 |
| Decentralised agencies | | 16 | 16 | 16 | 16 | 16 | 17 | 17 | 113 |
| 9. Environment and Climate Action | | 701 | 701 | 706 | 706 | 706 | 701 | 702 | 5.085 |
| Programme for Environment and Climate Action (LIFE) | | 662 | 663 | 669 | 680 | 695 | 717 | 742 | 4.828 |
| Decentralised agencies | | 39 | 38 | 37 | 37 | 36 | 35 | 35 | 257 |
| Margin | | 116 | 116 | 116 | 117 | 117 | 116 | 116 | 814 |
| 4. Migration and Border Management | | 3.076 | 4.219 | 4.414 | 4.647 | 4.719 | 4.846 | 4.908 | 30.829 |
| 10. Migration | | 980 | 1.444 | 1.435 | 1.548 | 1.535 | 1.524 | 1.509 | 9.972 |
| Asylum and Migration Fund | | 870 | 1.335 | 1.326 | 1.436 | 1.425 | 1.414 | 1.399 | 9.205 |
| Decentralised agencies | | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 768 |
| 11. Border Management | | 1.806 | 2.484 | 2.689 | 2.811 | 2.893 | 3.032 | 3.110 | 18.824 |
| Integrated Border Management Fund | | 741 | 1.235 | 1.226 | 1.275 | 1.265 | 1.255 | 1.241 | 8.237 |
| Decentralised agencies | | 1.065 | 1.249 | 1.463 | 1.535 | 1.629 | 1.777 | 1.869 | 10.587 |
| Margin | | 290 | 291 | 290 | 291 | 291 | 290 | 290 | 2.033 |
| 5. Security and Defence | | 3.154 | 3.229 | 3.183 | 3.281 | 3.517 | 3.743 | 4.216 | 24.323 |
| 12. Security | | 511 | 613 | 593 | 629 | 631 | 633 | 643 | 4.255 |
| Internal Security Fund | | 215 | 318 | 316 | 344 | 342 | 339 | 336 | 2.210 |
| Nuclear Decommissioning (Lithuania) | | 68 | 66 | 71 | 74 | 73 | 68 | 69 | 490 |
| Nuclear safety and decommissioning (incl. for Bulgaria and Slovakia) | | 86 | 86 | 83 | 68 | 74 | 68 | 65 | 555 |
| Decentralised agencies | | 143 | 143 | 143 | 143 | 143 | 143 | 143 | 1.001 |
| Defence | | 2.236 | 2.209 | 2.183 | 2.245 | 2.478 | 2.702 | 3.167 | 17.220 |
| European Defence Fund | | 1.411 | 1.386 | 1.359 | 1.421 | 1.654 | 1.878 | 2.145 | 11.453 |
| Military Mobility | | 823 | 823 | 824 | 824 | 824 | 824 | 824 | 5.767 |
| Crisis Response | | 177 | 178 | 178 | 178 | 178 | 178 | 178 | 1.242 |
| Union Civil Protection Mechanism (resUEU) | | 177 | 178 | 178 | 178 | 178 | 178 | 178 | 1.242 |
| Other | | p.m. | |
| Margin | | 230 | 229 | 229 | 229 | 229 | 229 | 228 | 1.606 |
| 6. Neighbourhood and the World | | 14.765 | 14.831 | 15.002 | 15.290 | 15.711 | 16.298 | 17.032 | 108.929 |
| 15. External Action | | 12.512 | 12.747 | 13.032 | 13.457 | 14.043 | 14.663 | 15.778 | 93.150 |
| Neighbourhood, Development and International Cooperation Instrument | | 10.573 | 10.632 | 10.791 | 11.059 | 11.456 | 12.008 | 12.697 | 79.216 |
| Humanitarian Aid | | 1.393 | 1.394 | 1.394 | 1.395 | 1.395 | 1.395 | 1.395 | 9.760 |
| Common Foreign and Security Policy (CFSP) | | 328 | 328 | 345 | 363 | 388 | 424 | 468 | 2.649 |
| Overseas Countries and Territories (including Greenland) | | 63 | 63 | 63 | 63 | 63 | 63 | 63 | 444 |
| Other | | 135 | 135 | 136 | 136 | 136 | 136 | 137 | 949 |
| Decentralised agencies | | 20 | 20 | 19 | 19 | 19 | 18 | 18 | 132 |
| 16. Pre-accession assistance | | 1.837 | 1.838 | 1.838 | 1.838 | 1.838 | 1.838 | 1.838 | 12.865 |
| Pre-Accession Assistance | | 1.837 | 1.838 | 1.838 | 1.838 | 1.838 | 1.838 | 1.838 | 12.865 |
| Margin | | 416 | 417 | 417 | 417 | 417 | 417 | 414 | 2.913 |
| 7. European Public Administration | | 10.388 | 10.518 | 10.705 | 10.864 | 10.910 | 11.052 | 11.165 | 75.602 |
| European Schools and Pensions | | 2.260 | 2.317 | 2.375 | 2.432 | 2.498 | 2.559 | 2.614 | 17.055 |
| Administrative expenditure of the institutions | | 8.128 | 8.201 | 8.330 | 8.432 | 8.412 | 8.493 | 8.551 | 58.547 |
| TOTAL | | 157.105 | 160.466 | 162.455 | 162.403 | 162.836 | 165.358 | 163.960 | 1.134.583 |
| In % GNI (EU-27) | | 1,12% | 1,13% | 1,13% | 1,12% | 1,11% | 1,11% | 1,09% | 1,11% |

* For the European Investment Stabilisation Function an interest rate subsidy will be provided through external assigned revenues equivalent to a share of monetary income.

ANNEX TO THE

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A modern budget for a Union that protects, empowers and defends the Multiannual Financial Framework for 2021-2027

SWD(2018) 171 final 02.05.2018



RESEARCH & INNOVATION

Horizon Europe

Horizon Europe is the EU's flagship programme to support research and innovation.

1. EUROPEAN ADDED VALUE

Research & Innovation is a crucial part of the knowledge-based society and one where a strong European dimension can leverage additional funds at national level, without evidence of substitution. Typically, Research & Innovation projects selected for EU funding harness a higher level of EU or international cooperation. They tend to have a scale, scope and level of sophistication that would prevent them from going ahead with national funding alone: 83% of EU Research & Innovation projects rated as "excellent" would not have gone ahead without EU support. In a world of heightened technological competition, we are moving swiftly into a low-carbon society in which digital technologies are increasingly converging with the physical and the biological world. Against this background, not investing in Research & Innovation on an EU scale would result in a decline of our global competitiveness. This would have knock-on economic, social and environmental impacts. The specific benefits of EU investments in the area of Research & Innovation are:

- ▶ Pooling public and private resources and knowledge to achieve bigger impacts and critical mass for tackling global challenges and taking leadership in EU and global markets;
- ▶ Boosting EU competitiveness through the creation of trans-national and multidisciplinary networks, value chains and markets, with positive knowledge dissemination and technology transfers across the Union to prepare and facilitate the deployment of new products and services;
- ▶ Strengthening scientific excellence through EU-wide competition and collaboration;
- ▶ Strengthening support for breakthrough/market creating innovations while respecting fair competition;
- ▶ Increasing the EU's attractiveness as a place for education, research, innovation and business;
- ▶ Having a positive structuring effect on national Research & Innovation ecosystems and pan-European research infrastructures;
- ▶ Supporting and strengthening Union's objectives and contributing effectively to deliver on policy priorities.

2. OBJECTIVES

Horizon Europe focuses on science and innovation, aiming to:

- ▶ Strengthen the EU's scientific and technological base;
- ▶ Foster the EU's competitiveness and its innovation performance;
- ▶ Deliver on the EU's strategic priorities and tackle global challenges.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is designed around three pillars:

1) Open Science – Building on the success of the European Research Council, the Marie Skłodowska-Curie Actions and the Research Infrastructures, the pillar adds more resources for projects with higher impacts. The projects are selected through a "bottom-up" approach, are defined and driven by researchers and networks and are evaluated on the sole criterion of excellence. The goal is to nurture innovation and entrepreneurship in education across

Europe to provide the skills and competences needed to make Europe more competitive on a global scale.

2) Global Challenges and industrial competitiveness – It is built on clusters that aim at exploiting European strengths and assets by generating new knowledge and translating it into useful innovations, developing and applying digital and key enabling technologies along with a new mission approach. This will further ensure that Research & Innovation activities support EU policy priorities in areas such as the achievement of the Sustainable Development Goals, health, food and natural resources, resilience and security, climate, energy and mobility to secure a low-carbon, circular and climate-resilient society, industrial competitiveness and other societal challenges. **Industrial leadership** will be prominent within the pillar and through the programme as whole.

3) Open Innovation – This new pillar will offer a one-stop shop for high potential innovators, aiming to put Europe at the forefront of market-creating innovation through a "bottom-up" approach. It will develop future breakthrough technologies and attract innovative companies with potential for scaling up at international/European levels. It will offer fast, flexible grants and market-based instruments with private investors while ensuring that support close to the market activities does not unduly distort competition between innovators. These objectives will be pursued through the creation of a European Innovation Council.

Additional measures will boost support to the European innovation ecosystem, notably through co-funding partnership initiatives and increased use of innovation procurement. Targeting governments and public administrations for the take up of innovative technologies and diffusion of European Research & Innovation results will maximise the benefits from innovation for European citizens and business.

As part of the programme, the **Joint Research Centre** will provide EU policy makers with independent scientific evidence and technical support throughout the whole policy cycle. The **European Institute of Innovation and Technology** will support all three pillars and will specifically address global challenges primarily through its Knowledge and Innovation Communities integrating business, research, higher education and entrepreneurship.

The programme will pursue efforts to further simplify the rules for beneficiaries. Key operational features will include:

- ▶ **Further simplification** of the current real cost reimbursement system will be pursued, including its simplified funding model and the principle of one funding rate per project. Moreover, to lower administrative burden, an increased use of lump sum project funding against fulfilment of activities will be explored, along with other simplified forms of funding provided by the new Financial Regulation.

- ▶ To **increase flexibility**, the future programme will allow allocation of funds between and within the pillars to react swiftly to emerging policy issues or challenges;
- ▶ Further **improvements to the proposal submission and evaluation process** will be envisaged. The evaluation criteria, process and involvement of independent experts will underscore the Programme's excellence and impact.
- ▶ Instruments and **funding schemes in the EU Research & Innovation landscape will be streamlined and coordinated** for the benefit of improved Research & Innovation activities. Partnerships will be improved building on the success of Joint Undertakings and linked with specific missions. In particular, specific support schemes for innovation will be streamlined under the newly-created European Innovation Council. The combination of Horizon Europe grants and financial instruments under the InvestEU Fund and with other relevant EU funding programmes will also be made easier.
- ▶ There is also room to further **expand the use of new management modes**, including through delegation to agencies and a simplified set of partnerships.

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

Complementarities and synergies with other EU funding programmes will be fully exploited. To that end, the **European Structural and Investment Funds** will continue to provide an important part of the EU funds for Research & Innovation through an increased focus on innovation. The "Seal of Excellence" scheme to allow projects successfully evaluated under Horizon Europe criteria to be funded at regional level under the European Structural and Investment Funds will be expanded.

The policy goals pursued by other programmes will in many cases be supported by Research and Innovation actions under Horizon Europe – programmes such as the **Digital Europe Programme** will benefit from Research & Innovation breakthroughs and long-term progress in areas like cybersecurity and artificial intelligence is heavily dependent on breakthrough research. The same is true for agriculture and fisheries, health, transport, energy and many other sectors. Funds such as the **Internal Security Fund** and the **Integrated Border Management Fund** will both benefit from the fruits of Research & Innovation and incentivise the uptake of research products. Through **InvestEU** it will be possible to transfer results from Horizon Europe to the market through specific windows dedicated to research and innovation, and to support innovative SMEs. Complementarity and synergies with research under the **European Defence Fund** and with the **Space Programme** will also be ensured, so that results in any of those programmes promote overall innovation.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Envelope for Horizon Europe | 97 600* |
| Envelope for Euratom Research and Training Programme | 2 400 |
| Total envelope for 2021-2027 | 100 000* |

* This envelope includes EUR 3.5 billion allocated under the InvestEU Fund and EUR 10 billion to support research and innovation in food, agriculture, rural development and the bioeconomy.



RESEARCH & INNOVATION

Euratom Research and Training Programme

The Euratom Research and Training Programme provides funding for **nuclear research and training** in the European Union.

1. EUROPEAN ADDED VALUE

The key European added value of the Euratom Programme is the mobilisation of a wider pool of excellence, expertise and multi-disciplinarity in fission and fusion research than is possible at the level of individual Member States. Nuclear and ionising radiation technologies continue to play an important role in the lives of European citizens, whether this concerns energy and its security of supply, the use of radiation in medical and industrial applications or management of spent fuel and radioactive waste. Safe and secure use of these technologies is of paramount importance and research programmes help maintaining the highest safety, security and safeguards standards in this field. The Euratom Programme focuses also on the development of fusion energy, a potentially inexhaustible and climate-friendly energy source.

An EU-wide approach to nuclear safety is also important since a nuclear accident could have negative consequences for countries across Europe and beyond. The Euratom programme also enables a broader coordination of education and training throughout Europe, the use of research infrastructures and international cooperation. This is of particular benefit to smaller Member States that can take advantage of economies of scale afforded by the Europe-wide pooling effect. The programme provides, through the Joint Research Centre, an important independent scientific advice in support of the

implementation of European policies in the field of nuclear safety, spent fuel and radioactive waste management and radiation protection. With its independent infrastructures, the Joint Research Centre also provides unique services in the field of nuclear safety and security and plays a crucial role in the Euratom nuclear safeguards system. The involvement of European industry in fusion research activities fosters innovation e.g. through the development of high-technology spin-off products in other sectors such as medical and aviation.

2. OBJECTIVES

The Euratom Research and Training Programme objectives are to pursue and support research on all aspects of **nuclear safety and security, reducing risks associated with radiation exposures, supporting emergency preparedness and response in relation to accidents involving radiation and managing the spent fuel and radioactive waste**. The Programme also aims to sustain the **development of fusion energy** in view of its potential major impact in contributing to the decarbonisation of the energy mix.

3. IMPLEMENTATION & SIMPLIFICATION

The Euratom Programme provides research grants through competitive calls for proposals (indirect actions), and funds research carried out by the Commission's Joint Research Centre (direct actions). The Programme is implemented using the instruments and rules of the Framework Programme for Research and Innovation. Further simplification of the programme will be achieved by proposing a single list of objectives for direct and indirect actions.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The Euratom programme complements and provides synergies with **Horizon Europe** in areas such as health (medical applications of ionising radiation), security, energy and education and training. The Euratom fusion research programme will be carried out in full complementarity and coordination with the **International Thermonuclear Experimental Reactor** activities. The Euratom programme will continue the alignment of national programmes in fusion, radiation protection and management of spent fuel and radioactive waste via the implementation of European Joint Programmes. Moreover, synergies with the **Decommissioning of Nuclear Facilities Programmes** are expected in areas such as technology development and testing, training and exchange of best practices.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Envelope for Horizon Europe | 97 600* |
| Envelope for Euratom Research and Training Programme | 2 400 |
| Total envelope for 2021-2027 | 100 000* |

* This envelope includes EUR 3.5 billion allocated under the InvestEU Fund and EUR 10 billion to support research and innovation in food, agriculture, rural development and the bioeconomy.



RESEARCH & INNOVATION

ITER - International Thermonuclear Experimental Reactor

ITER, the International Thermonuclear Experimental Reactor is a **first-of-a-kind, long-term project to build and operate a reactor in order to test the feasibility of fusion as an energy source.**

1. EUROPEAN ADDED VALUE

Fusion is a potentially inexhaustible, climate-friendly energy source that does not produce greenhouse gases or long-lasting radioactivity. In a context where decarbonising the economy and tackling global climate change are high on the agenda, fusion offers prospects which cannot be ignored.

Neither the industry nor any country individually would be able to execute the project on its own. This is why the European Atomic Energy Community (Euratom) signed an international treaty in 2006 – the "ITER Agreement" – with six partners (the United States, Russia, Japan, China, South Korea and India). It contributes about 45% of the construction costs. France, as the host country, finances 20% of the Euratom contribution, with the remaining 80% being provided from the EU budget. Action at EU level ensures economies of scale, less fragmentation and a critical mass of resources and expertise.

Achieving and exploiting fusion is a long-term objective, but the project is already bringing important benefits to the EU industry and research in the procurement and construction phases. More than three hundreds companies –including small businesses– from 20 Member

States and Switzerland, and around sixty research organisations are engaged in cutting-edge research and innovation to provide components, offering them a chance to develop spin-off products in other sectors (energy, medical, aviation, high-tech).

2. OBJECTIVES

In line with the Euratom's international obligations, the programme supports the **construction of the reactor** on its site in Cadarache (France), so that it initiates experiments on hydrogen plasma by 2025, laying grounds for successful progress to full power-generation stage of operation by 2035. Those milestones are necessary steps to make fusion a possible sustainable energy source.

The programme not only contributes to achieving a resilient Energy Union with a forward-looking climate policy. It also fosters job creation and growth by offering European high-tech industries and small companies a valuable opportunity to innovate and develop products outside fusion. Finally, the timely delivery of EU components and active participation in the governance processes secure the continued EU leadership in the project.

3. IMPLEMENTATION & SIMPLIFICATION

The programme will continue to be implemented on the EU's behalf by the Fusion for Energy joint undertaking. The EU will maintain an expenditure ceiling in the Multiannual Financial Framework Regulation and will ensure that the disbursement of funding is based on performance and actual delivery on the ground. In this respect, the radical overhaul of the project management in 2015 and the update of the baseline in 2016 increased the reliability of the schedules and costs of the project until its completion.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES : ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

As one of the largest experimental projects ever constructed, the International Thermonuclear Experimental Reactor contributes to placing the EU at the forefront of research and innovation on the global stage. It mobilises significant resources and know-how, bringing positive impact to the EU industrial base research community. It is in full synergy with the Euratom programme, which supports the development of **ground-breaking research in the field of nuclear fusion**. It is part of the overall Fusion Roadmap developed by the European scientific fusion community. In addition, the programme will further consolidate the EU's place as a credible, international leader which fulfils its international obligations and is committed in its efforts to fight against climate change.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

6 070



EUROPEAN STRATEGIC INVESTMENTS

InvestEU

The InvestEU Fund is the **Union's new investment instrument**. It provides an EU guarantee with a view to mobilising public and private financing in the form of loans, guarantees, equity or other **market-based instruments**, for strategic investments in the support of EU internal policies. It builds on the successful implementation under the current period 2014-2020 of the European Fund for Strategic Investments and other financial instruments.

1. EUROPEAN ADDED VALUE

The EU long term goals regarding sustainability, competitiveness and inclusive growth require significant investments in new mobility models, renewable energies, energy efficiency, research and innovation, digitisation, education and skills, social infrastructure, circular economy, natural capital, climate action or small businesses creation and growth. Renewed efforts are needed to tackle persisting market failures caused by private investors' risk aversion, the public sector's limited capacity and structural inefficiencies of the investment environment. Member States cannot always bridge those investment gaps alone.

Grants alone cannot address the significant investment gaps. The use of financial instruments, with a leverage effect and closer to the market, efficiently complements grants in the EU budget toolbox. Intervention at Union level provides economies of scale in the use of innovative financial instruments by catalysing private investment in the whole EU and making best use of the European institutions and their expertise for that purpose.

EU intervention also gives access to a diversified portfolio of European projects and allows for the development of innovative financing solutions which can be scaled up or replicated in all Member States. The multiplying effect and the impact on the ground are thus much higher than what could be achieved by an initiative in a single Member State, in particular for large-scale investment programmes. EU level intervention also

provides flexibility to support intermediaries and final beneficiaries in locations where they are most needed, often in urban areas which do not necessarily benefit from the European Structural and Investment Funds. In addition, it allows to effectively address investment needs linked to EU-wide policy objectives, complementing efforts to promote structural reforms and improved regulatory environment to thus address the remaining investment gaps in the post-2020 period.

2. OBJECTIVES

The InvestEU Fund aims at mobilising investment within the EU to support political priorities and to contribute to the integration of European capital markets and the strengthening of the Single Market. It will target investments promoting **sustainable infrastructure, research and innovation, digital transformation, the access to finance for small and medium-sized enterprises, education, skills, social infrastructure** and the development and consolidation of market structures underlying **micro-credits and the social economy**. Digital investment will be a key cross-cutting priority for all InvestEU windows. In addition, the InvestEU Fund provides advisory support and accompanying measures to foster the creation and development of projects.

3. IMPLEMENTATION & SIMPLIFICATION

The InvestEU Programme will comprise the InvestEU Fund, InvestEU Assistance and the InvestEU Portal.

The InvestEU Fund will pool all centrally managed financial instruments in a single, flexible, multi-policy guarantee instrument at the EU level¹, allowing for significant economies of scale – doing more with less – and attracting private investors. Building on the European Fund for Strategic Investments, the InvestEU Fund will address market gaps and sub-optimal investment situations by providing an EU guarantee to the Commission’s strategic implementing partner, the EIB Group, as well as to other partners such as National Promotional Banks and Institutions or International Financial Institutions (e.g. the European Bank for Reconstruction and Development). To ensure the best possible financing mix for strategic projects across the EU, the InvestEU Fund will allow for simple combination with grants from the EU budget as well as with European Structural and Investment Funds (on voluntary basis).

Building on the European Investment Advisory Hub, InvestEU Assistance will provide a single entry point for 360-degree project development assistance for project promoters. Building on a powerful partner network, InvestEU Assistance will help projects get off the ground and make them investment-ready. The InvestEU Portal will bring together investors and project promoters, building on the European Investment Project Portal.

¹ Without prejudice to the responsibility of relevant Directorates-General.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

As a delivery tool for EU policies, the InvestEU Fund will foster investment in full synergy with the corresponding EU policies and programmes, such as the **Connecting Europe Facility, Horizon Europe, the Digital Europe Programme or the Single Market Programme**. It will ensure complementarity with investments under the **European Structural and Investment Funds** and with EU support provided by **relevant spending programmes** in the form of grants. Moreover, the programme will allow for the blending of financial instruments with grants from other programmes, in particular for projects that do not generate sufficient revenue.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | | <i>EUR million</i> |
|---|----------------------------|---|
| Window | Budgetary guarantee | Mobilised investment (estimates) |
| Sustainable infrastructure | 11 500 | 185 000 |
| Research and innovation | 11 250 | 200 000 |
| Social investment and skills | 4 000 | 50 000 |
| Small and Medium-sized enterprises | 11 250 | 215 000 |
| Total | 38 000 | 650 000 |

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Total envelope for 2021-2027 | 15 725* |
| of which: | |
| Provisioning of the Guarantee Fund | 15 200* |
| Project development assistance | 525 |

* This envelope includes EUR 1 billion of expected reflows of the current financial instruments.



EUROPEAN STRATEGIC INVESTMENTS

Connecting Europe Facility

The Connecting Europe Facility supports **investment in cross-border infrastructures in the transport, energy and digital sectors.**

1. EUROPEAN ADDED VALUE

At the core of the Single Market lies the guarantee that goods, capital, services and labour can freely move from one Member State to the other. However, gaps still exist between Member States and regions which fragment the EU and impede the smooth functioning of the Single Market. This can, for instance, be the result of topography or a lack of interoperable standards. To overcome this fragmentation and make sure that the Single Market fully delivers, Article 170 of the Treaty on the Functioning of the European Union provides that the EU shall develop trans-European networks of transport, telecommunications and energy infrastructures. In addition, environmental concerns require that the EU energy policy should promote the interconnection of energy networks and cross-border integration of renewables. This is also consistent with the need to meet the challenges of decarbonisation and digitisation of the European economy.

The Facility is designed to foster investment in the trans-European networks. Those networks and cross-border cooperation are crucial not only to the functioning of the Single Market, but they are also strategic to implement the Energy Union, the Digital Single Market and the development of sustainable transport modes. Interoperable cross-border networks are key to reducing the current fragmentation. Without EU intervention, private operators and national authorities have insufficient incentive to invest in cross-border infrastructure projects. The Facility also provides the opportunity to deploy technologies developed at EU level and in particular through the EU Research and Innovation Framework Programmes, boosting their market uptake and ensuring that the trans-European networks use the most advanced available equipment.

2. OBJECTIVES

The Connecting Europe Facility supports investment and cooperation to develop infrastructure in the transport, energy and digital sectors and connects the EU and its regions. It further aligns with the policy objectives of decarbonisation and digitisation of the European economy, covering three strands:

- ▶ For **transport**, it aims at completing both layers of the European network for all transport modes: the strategic backbone (i.e. the core network) by 2030 and its more extensive layer (i.e. the comprehensive network) by 2050. It also supports the deployment of **European traffic management systems** for air transport and railways, and helps the EU transition towards **connected, sustainable, inclusive, safe and secure mobility**. It contributes to the **decarbonisation of transport**, for example by constituting a European network of charging infrastructure and for alternative fuels or prioritisation of environmentally friendly transport modes;
- ▶ For **energy**, the focus is on completing priority sections of the energy networks essential for the internal market. It also seeks to deliver **smart and digitised energy grids**, so as to achieve interconnection targets and improve security of supply. Promoting Member States' cooperation in integrating **cross-border renewable energy projects** will also be key;
- ▶ For **digital**, the Facility maximises the benefits that all citizens and businesses can get from the Digital Single Market. The deployment of very **high capacity digital networks** supports all innovative digital services, including connected mobility. In addition, it contributes to ensuring that all main socio-economic drivers such as schools, hospitals, transport hubs, main providers of public services and digitally-intensive enterprises have access to **future-oriented broadband connections** by 2025.

3. IMPLEMENTATION & SIMPLIFICATION

The Connecting Europe Facility will be centrally managed by the Commission, with the support of the Innovation and Networks Executive Agency. The agency has built an excellent track-record in optimising the use of the Facility and has accumulated a wealth of expertise in monitoring projects. Delegating all three sectors of the Facility to a single agency will also generate economies of scale and synergies between transport, energy and digital strands.

Grants will remain the preferred means to address the gaps affecting infrastructure projects. The use of simplified forms of grants will be further promoted.

Grants will also be used for blending with financial instruments, in particular from the InvestEU Fund, or with financing from public or private financial institutions, to leverage investment support. The programme will not be equipped with its own financial instruments as they will be delivered by the InvestEU Fund to avoid overlaps that have happened in the current period, as well as to streamline the landscape of EU financial instruments.

The Facility will fully exploit synergies between the transport, energy and digital sectors. In particular, a specific focus on innovative infrastructure solutions (such as smart grids, energy storage, e-mobility, charging infrastructure, and alternative fuels) is needed to deliver on the 'Clean Energy for All' and 'Clean Mobility' packages. The future programme's rules and implementation will therefore be flexible enough to support actions at the crossroads of the different strands, for example alternative fuels and e-mobility for all transport modes (which affect both energy and transport), automated driving vehicles and vessels (transport/digital), incorporating digital technologies (in particular the Internet of Things) into energy grids, creating the Internet of Energy (which affect energy, transport and digital), and renewables integration supported by a functional cross-border Green infrastructure (energy and digital).

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

In addition to synergies within the programme, the Facility will better interact with other EU programmes. For example, its work on the physical connectivity infrastructure across the EU will complement the development of digital services under the **Digital Europe Programme**.

The programme and the **European Structural and Investment Funds** will also complement each other to deliver on infrastructure investment. For instance in the transport sector, the Facility will concentrate on the trans-European network dimension, notably on the cross-border corridors, while the European Regional Development Fund and Cohesion Fund will prioritise transport projects with a national, regional and urban focus. Similarly, in energy, the Facility will focus on infrastructure including projects relevant for the integration of renewables with cross-border relevance, while European Structural and Investment Funds can address local smart grids and renewable projects. The Digital strand will focus on projects with strong cross border and cross sector impacts, on maximising the footprint of private investments. In addition, the Facility will aim to increase its attractiveness for the pooling of funds from national budgets in projects of common interest in the digital sector.

The programme can support the deployment of innovative technologies developed within **Horizon Europe** whilst the latter support upstream technology development.

Building on the positive experience in the current period, a contribution from the **Cohesion Fund** will be made available to the Transport strand, in direct management. In addition, funding from the **Defence** cluster will be made available to the Transport strand as well to ensure that transport infrastructures of strategic importance are suitable for military mobility needs.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|--|--------------------|
| Total envelope for 2021-2027 | 42 265 |
| Digital | 3 000 |
| Energy | 8 650 |
| Transport | 30 615 |
| of which: | |
| General envelope | 12 830 |
| Contribution from Cohesion Fund | 11 285 |
| Support for Military Mobility | 6 500 |



EUROPEAN STRATEGIC INVESTMENTS

Digital Europe Programme

Digital Europe is a new programme dedicated to the **digital transformation** of public services and businesses, by boosting frontline investments in **high-performance computing and data, artificial intelligence, cybersecurity and advanced digital skills**, as well as **large-scale deployment of digital technologies** across European economic sectors. It builds on existing actions such as Interoperability solutions for European public administrations, businesses and citizens and pilots in cybersecurity and high-performance computing.

1. EUROPEAN ADDED VALUE

Digitisation is inherently a cross-border and cross-sectoral phenomenon. Action at EU level can make the Digital Single Market a reality in which digital policies are coordinated across the EU, digital public services and infrastructures deployed by Member States are no longer fragmented, and digital technology is evenly diffused, closing gaps between EU and national digitisation programmes and avoiding a digital divide. EU intervention will also generate co-investment and bring economies of scale from joint procurement of supercomputers and from savings from maintenance cost-sharing.

Digital capacities are essential to face global competition and to analyse the critical mass of big data for Artificial Intelligence innovation. Europe's international competitiveness is constrained by the low digitisation of its small and medium-sized enterprises, a problem that requires improving access to finance, technology and skills. The focus is on the digital capacities and advanced skills that are essential to face global competition, addressing societal challenges and bringing the benefits of digital transformation to every citizen and business.

The programme will support a set of ambitious projects that will make the best use of these digital capacities and of the latest digital technologies in areas of public interest such as health, public administration, judiciary and education, ensuring the availability and interoperability of solutions across the EU.

Cybersecurity is of key importance to ensure trust in digital products and services and needs to be addressed at European level, given the speed and wide propagation of cyber-attacks. Investment at EU level will provide the public and private sectors with more secure infrastructure and with the tools and expertise to address the origins and propagation of attacks, and the means to track and prevent them. Such an investment will be instrumental to be able to protect citizens, governments and businesses across the EU.

2. OBJECTIVES

Europe's digital transformation and international competitiveness must be accelerated by:

- ▶ **Reinforcing capacity** in the areas of high-performance computing, cybersecurity, Artificial Intelligence and digital skills;
- ▶ Widening the **diffusion and best use of digital technologies** in the public and private sector where there are market failures (e.g. for small and medium-sized enterprises);
- ▶ **Aligning EU, Member State and regional policies and pooling** private and industrial resources to increase investment and develop stronger synergies.

3. IMPLEMENTATION & SIMPLIFICATION

The programme will be centrally managed by the Commission around five interdependent and mutually reinforcing pillars.

- 1) **High performance computing** and data processing infrastructures will be procured jointly to build an integrated European supercomputers ecosystem (including hardware, software, applications), used in particular in areas of public interest;
- 2) **Cybersecurity** capacities for both public administration and businesses will be enhanced via (i) procurement of advanced solutions, equipment, tools and data; (ii)

increasing access to testing and certification facilities; and (iii) provision of technical assistance and expertise;

- 3) Open platforms and "common data space" for **Artificial Intelligence** will be acquired and made available widely across the EU in Digital Innovation Hubs, providing testing facilities and knowledge to small businesses and local innovators.
- 4) The **Advanced Digital Skills** pillar will offer students and technology experts the opportunity to pursue training in advanced digital technologies (data analytics, robotics, artificial intelligence, blockchain, cybersecurity, high performance computing, quantum etc.), specialised courses and internships in companies deploying advanced technologies;
- 5) Large-scale deployment projects will assist the **transition of areas of broad public interest to the digital age**. They will align investments of Member States and the EU to ensure wide availability and interoperability of the resulting solutions, continuing actions and services provided under the predecessor programmes. Support will also go to small and medium-sized enterprises to engage in digital transformation, notably in areas like Artificial Intelligence.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

As well as supporting the delivery of the Digital Single Market more widely, the Digital Europe Programme will provide the digital capacity-building and large-scale deployment needed by a number of other EU programmes. In many areas such as health, public administration, justice and education, the Programme will contribute to the EU's work to promote effective and modern public services. Support for a dynamic economic sector will also reinforce growth-focused programmes and industrial policy. Building a secure environment for digital services will assist all digital-based action, and in the area of cybersecurity, the Programme will specifically complement action under the **Internal Security Fund**.

The Programme will in turn benefit from research and innovation breakthroughs under the **Horizon Europe Programme**, progressively mainstreaming them in areas of public interest and contributing to their commercial exploitation. The **Connecting Europe Facility** will support the physical connectivity infrastructure needed for the services delivered under the Digital Europe Programme. Digital Innovation Hubs for small and medium-sized enterprises and local innovators and the coordinated digitisation of regional public administrations will improve interoperability and create synergies with national/regional programmes under the **European Structural and Investment Funds**. Open call for grants will be organised to create Digital Innovation Hubs in all European regions to provide testing facilities for Artificial Intelligence and knowledge to ease the digital transformation of small businesses.

Specific synergies with other innovation instruments such as the **European Institute of Innovation and Technology** and support through the **European Regional Development Fund** will also be promoted. The advanced Digital Opportunity Scheme complements the objectives of the **European Social Fund+** and **Erasmus+** by addressing the gap between demand and supply for experts in new digital technologies.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

9 194



SINGLE MARKET

Single Market Programme

The new **Single Market Programme** supports the effective functioning of the Single Market by ensuring cooperation between authorities, and the provision of services to citizens and businesses, in particular small and medium-sized enterprises. It also supports EU standard-setting and rule-making in areas like access to markets and finance, consumer protection, food safety, anti-money-laundering, competition, statistics, financial reporting and auditing. The programme brings together successful actions such as COSME, the programme for Small and Medium-sized Enterprises and the Statistics programme. This will be complemented with internal market governance tools and services such as Your Europe portal, Your Europe Advice, the Internal Market Information service and "SOLVIT", the network for effective problem solving in the Single Market.

1. EUROPEAN ADDED VALUE

The Single Market is a cornerstone of the EU. Its benefits continue to feature high in what citizens and businesses most value and expect from the EU. EU level support is indispensable to ensure the **effective operation of the Single Market**. This includes ensuring its good governance and the high quality and relevance of its rules. It also means making sure that citizens and businesses are equipped with the right tools to understand it and to reap its benefits.

A well-functioning Single Market needs informed citizens, empowered consumers, businesses and in particular small businesses, which account for two thirds of the jobs in Europe. Considering the steady increase in cross-border activity, rapid technological development and the emergence of new products/services/practices, increased consumer expectations and public cross-border challenges, continuous and coordinated action at EU level is required to address a **twofold challenge**. The first is to tackle persisting **fragmentation** of the Single Market through enhanced cooperation, preventive mechanisms, enforcement, advice and communication on rights and opportunities. The second is to **adapt** EU rules and standards and their enforcement to rising and complex challenges. These challenges are notably linked to the combined impact of well-established trends: digitisation and globalisation of trade with increased competitive pressure to be expected from third countries.

Protection against cross-border food safety threats can only be effective and efficient if coordinated at EU level. In these areas, EU added value is increased thanks to uniform standardisation and consumer protection across the EU.

Small businesses throughout the EU also share common challenges that do not affect larger firms and prevent them from reaping the benefits of the Single Market. EU support is needed to overcome those obstacles.

2. OBJECTIVES

A well-functioning and future-looking Single Market requires interventions to **empower consumers and enable businesses and public administrations** to take full advantage of the market integration and opening. It will help strengthen their capacities to represent and protect their interests.

It will address the **specific needs of businesses and in particular Small and Medium-sized Enterprises** at different stages of their development to better grasp the opportunities of the Single Market, including through the access to fast growing markets outside the EU and to global value chains.

The programme will strengthen **regulatory and administrative cooperation** between Member States and with the Commission. It will foster Member States' operational enforcement capacity to ensure better convergence/integration, trust, effective prevention of barriers, as well as to protect citizens.

It will ensure high-quality and effective **rules and standard-setting**. It will equip actors responsible for the enforcement of Single Market laws with a solid evidence basis and the right tools to address emerging and increasingly cross-border challenges. The programme will ensure cooperation with international partners for convergence of international standards and promotion of EU policy interests.

It will promote a high level of **animal health and welfare and plant health**, thus protecting consumers and the environment, including through crisis preparedness and response, effective official controls as productive factors for growth, jobs and security, contributing to the good functioning of the Single Market and improving EU competitiveness.

It will produce and disseminate high quality **European statistics**, which are indispensable for decision-making in all policy areas, as well as performance and impact measurement of EU initiatives.

3. IMPLEMENTATION & SIMPLIFICATION

The **integration of different Single Market-related instruments** centrally managed by the Commission into one programme aims to reduce overlaps, increase synergies and facilitate communication and networking with all various stakeholder groups. Such a consolidation of activities provides higher value for money and cost-efficiency.

The loan guarantees for Small and Medium-sized Enterprises will be delivered through the relevant window of the **InvestEU Fund**. Simplified cost options (flat rates, lump sums and unit costs) will be increasingly used to reduce burdens for beneficiaries and administrations. The use of e-procurement and e-grants for direct management will be promoted, as will the possibility to further externalise direct management of funds to executive agencies. The future programme will allow movements of funds between and within its different pillars.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Coordination will be ensured with the cooperation activities supported respectively under the **Fiscalis** and **Customs** programmes that represent key elements in efforts to strengthen the EU Single Market. The **Digital Europe** programme will provide the digital interoperability and infrastructures needed by a number of EU programmes, including the Single Market programme. Interventions aiming to foster labour and youth mobility under the **European Social Fund+** and **Erasmus+** will act as catalyst for free movement of persons, one of the core freedoms in the Single Market. In the same vein, cross-border and transnational activities aiming at economic cooperation under **European Structural and Investment Funds** also concretely support the Single Market. Moreover, the programme will encourage small companies to benefit from breakthrough innovation and other solutions developed under other flagship EU programmes like **Horizon Europe** and the **Space Programme**. By supporting activities on company law, contract law, anti-money laundering, and consumer policy,

the future Single Market Programme will develop synergies with the **Justice, Rights and Values Fund**, contributing to the creation of an EU justice area through equal access to justice for citizens and businesses and appropriate training of the judiciary to ensure business and consumer laws are respected.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Total envelope for 2021-2027 | 6 089* |
| of which: | |
| Competitiveness and Small and Medium-sized Enterprises (COSME) | 3 000* |
| Food safety | 1 680 |
| Statistics | 552 |
| Financial services | 528 |
| Consumer | 188 |
| Competition | 140 |

* *This envelope includes EUR 2 billion allocated under the InvestEU Fund.*

Note: the total does not tally due to roundings.



SINGLE MARKET

EU Anti-Fraud Programme

The EU Anti-Fraud programme supports the Member States' efforts **to prevent and combat fraud against the EU's financial interests.**

1. EUROPEAN ADDED VALUE

The protection of the EU financial interests is the responsibility of both the Member States and the EU level. The EU does not tolerate fraud and it must protect its budget, especially in times of scarce resources. On the expenditure side, the budget is exposed to the risk of fraud and irregularities. On the revenue side, two important inputs into the EU budget are also particularly exposed to the risk of fraud: customs duties and the

Value-added tax (VAT) collected by the Member States. In a customs union where goods move freely between Member States, national investigative services must also be able to join their efforts and coordinate their investigations and exchange of data.

The pan-European dimension of the Programme facilitates cross-border cooperation and exchanges. It allows for improved planning and monitoring, on top of a more efficient use of resources than national/regional interventions in the same field do.

2. OBJECTIVES

The EU Anti-Fraud Programme supplies the technical equipment and training that enables (joint) anti-fraud operations and investigations. Furthermore, the programme contributes to new electronic structures to enable the Member States to effectively combat fraud, in close cooperation with EU institutions and bodies, such as the European Public Prosecutor's Office.

3. IMPLEMENTATION & SIMPLIFICATION

Mainly through grants and procurements, the EU Anti-Fraud programme will finance a range of activities to support the fight against fraud. In particular, it will focus on the purchase of technical equipment, conferences, training activities and exchange of best practices among its beneficiaries (mostly national authorities). The programme will also provide financing for a common set of information systems and databases to support mutual assistance and customs cooperation in the fight against fraud, in particular by securing the exchange of customs information between the Member States, the EU and third countries. The programme will also provide financing for the reporting of irregularities by the Member States.

The EU Anti-Fraud Programme will combine the financing of two existing initiatives: the Hercule III Programme, designed to support the fight against fraud, corruption and irregularities; and the Anti-Fraud Information System, which supports mutual assistance in customs matters in particular. The programme will continue financing the Irregularity Management System, currently offered within the Anti-Fraud Information System.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The EU Anti-Fraud programme will complement existing anti-fraud policy tools and will address upcoming developments and challenges in the area of the protection of the EU financial interests, in particular the Directive on the Protection of Financial Interests, which the Member States must transpose by July 2019. It will also provide

strong synergies with the **European Public Prosecutor's Office**, which will start investigating and prosecuting fraud to the EU budget by the end of 2020. The Programme will allow avoiding overlaps, generate efficiency gains and provide more flexibility to respond to new investigative priorities.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 181 |



SINGLE MARKET

FISCALIS – Cooperation in the field of taxation

Fiscalis is the Union cooperation programme enabling national **tax administrations to create and exchange information and expertise**.

1. EUROPEAN ADDED VALUE

Fiscalis contributes to the smooth functioning of the tax systems in the Union by supporting cooperation between Member States' tax administrations and offering cost-effective and interoperable IT solutions which each Member State would otherwise have to develop individually.

The programme provides European added value through its contribution to fight against tax fraud, tax evasion and tax avoidance, improving tax fairness and transparency as well as supporting the functioning of the Single Market and competitiveness. This can only be successfully achieved through joint action at Union and Member States level.

2. OBJECTIVES

Fiscalis concentrates on setting up efficient mechanisms, including Information Technology tools, for improving tax administration and administrative cooperation,

aiming in particular at providing more effective means to national tax administrations in their fight against tax fraud and evasion while facilitating tax compliance. Overall, the programme contributes to the adequate functioning of the tax systems of the Union, i.e.:

- ▶ Help **prevent and fight against tax fraud, tax evasion, tax avoidance**;
- ▶ Help **prevent unnecessary administrative burden** for citizens and businesses (including small and medium-sized enterprises) in cross-border transactions;
- ▶ Support achieving the full potential of the **Single Market** and foster Union competitiveness;
- ▶ Promote and support a joint Union approach in **international fora**.

3. IMPLEMENTATION & SIMPLIFICATION

Given the nature of its activities and its focus on tax administrations as beneficiaries, *Fiscalis* will continue to be implemented under direct management. It will allow for a targeted and appropriate allocation of funds, combined with an ability to rapidly adapt to emerging priorities and needs.

Further simplification will be achieved in its implementation, maximising the use of lump sums and unit costs in the context of grants. Public procurement contracts will also be part of the delivery mechanisms of this programme.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Fiscalis provides for synergies with other programmes, such as with the **Customs** programme, notably in the field of electronic systems, programme management and joint actions, and with the **Digital Europe Programme**. There are also complementarities with the new programme for Structural Reform that includes assistance to tax administrations.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

270



SINGLE MARKET

CUSTOMS – Cooperation in the field of customs

The Customs programme supports the work of and **cooperation between customs authorities** and by doing so protects the financial and economic interests of the Union and its Member States. It strengthens the integrity of the Single Market.

1. EUROPEAN ADDED VALUE

Customs is an exclusive competence of the Union with a high degree of harmonised EU legislation. However, implementation is carried out by Member States. Therefore, strong cooperation is essential for deeper operational integration which will enable customs authorities in the different Member States to act as if they were one. It will also help ensure correct collection of customs duties (15% of the EU budget, i.e. EUR 20 billion in 2016), import Value Added Tax and excise duties. As the activities in the customs area are of a cross-border nature, they cannot be effectively and efficiently delivered by individual Member States alone.

The Customs Programme offers a Union framework for cooperation among national customs administrations, including on Information Technologies matters. Customs cooperation is founded on a highly secured, dedicated communication network and a multitude of interconnected and interoperable Trans-European electronic systems used by national customs authorities, including to exchange with economic operators. The resulting set-up is substantially more cost efficient than if each Member State were to set up its individual cooperation framework on a bilateral or multilateral basis.

2. OBJECTIVES

The programme aims to **support customs authorities** in protecting the financial and economic interests of the Union and of the Member States. The programme **facilitates the administrative environment** for international trade operators, including digitisation of interaction between trade and customs. In addition, the programme **strengthens security and protection of citizens** and pursues customs modernisation. It has a key role in optimising the functioning of the customs union in all its aspects thus increasing the attractiveness and credibility of the EU as a trade partner in a globalised world.

3. IMPLEMENTATION & SIMPLIFICATION

The programme will pursue its objectives via directly managed procurement and grants for the development of interoperable Trans-European electronic systems and joint actions. Further simplification will be sought in its implementation, maximising the use of lump sums and unit costs in the context of grants. Reimbursement of experts will also be part of the delivery mechanisms of the programme.

Data exchanged between customs authorities based on the "once only" principle will further simplify the activities in the customs area. Additionally, new generation secure network infrastructure will offer better data exchange and more secure services.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The programme has strong links with **Fiscalis**, **Pericles** and the **EU Anti-Fraud Programme** as regards the activities, delivery mechanism and target beneficiaries. It will also generate synergies with the **Digital Europe Programme** where generic solutions for electronic system architecture and infrastructure are developed, allowing further streamlining and economies of scale between systems. Collaboration between the programmes is already happening, i.e. on development of certain electronic system components. There are also links with the **Integrated Border Management Fund**, specifically with the **Customs Control Equipment** component, which will help national customs to procure equipment, and the Internal Security Fund. Finally, complementarity exists also with the **Technical Support Instrument** for assistance to improving customs administration's capacity.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 950 |



SPACE

European Space Programme

The Space programme finances the deployment and exploitation of **European space infrastructures** and related services.

1. EUROPEAN ADDED VALUE

Space infrastructures support services that have become indispensable in Europeans' daily lives, when using mobile phones, driving or finding places with a navigation system, taking a plane or cruising in the sea. They also help ensure the protection of people (for example by better evaluating the impact and managing responses to natural disasters), the environment and key economic systems (energy power plants, banking transactions, secure communications). As new space technologies and innovative services emerge, the importance of state-of-the-art space infrastructures becomes ever more important.

Financing a network of satellites and operating space programmes exceeds the financial and technical capacity of any single Member State. There would also be a waste of resources and fragmentation if each Member State developed its own launchers, satellites or regulatory standards. Space is a strategic sector and the EU must secure its industrial leadership and autonomy to remain a global actor. The Treaty on the Functioning of the European Union tasks the EU with drawing up a European space policy, supported by a European Space Programme.

2. OBJECTIVES

The Space Programme ensures that the EU fully exploits the economic and societal potential that space can bring:

- ▶ Ensure the **continuity of the existing space infrastructures and services, and the development of new ones**. The EU has three flagships: *Copernicus*, a leading provider of Earth observation; *Galileo*, the EU's own global navigation satellite system; and *EGNOS*, a signal augmentation system for navigation services to aviation, maritime and land-based users. To continue providing data and deploy innovative services, new satellites have to be launched and the infrastructures on the ground need maintenance and upgrade;

- ▶ Foster an **innovative European space sector that can compete globally**. The programme supports industrial competitiveness, internationalisation and skills development of all the segments of the space industrial value chain, from a strong satellite manufacturing industry to a dynamic downstream service sector as well as ensuring EU strategic autonomy in Space. At the same time, it encourages the transfer and cross-fertilisation of technology with non-space sectors;
- ▶ Reinforce the EU's capacity to have a **guaranteed access to space and space services**. Space capacities are so strategic that the EU must mitigate dependence on external actors to build, launch and operate satellites; it must preserve its freedom of action and autonomy of decision. The Space Programme therefore supports innovative EU efforts to remain competitive in the launcher sector and the wider space sector, and it ensures a better protection and tracking of satellites in space (Space Surveillance Tracking, Space Situational Awareness) and secure satellite communications for the EU and national public authorities.

3. IMPLEMENTATION & SIMPLIFICATION

The Space Programme will be delivered for the most part through procurements. Some specific activities will be delegated to the agencies and international bodies, in particular to the European Global Navigation Satellite Systems Agency (GSA) and the European Space Agency. Additional delivery mechanisms such as public-private and public-public partnerships will also be considered, when appropriate.

The future programme will consolidate all space-related activities into a single Regulation. This will provide greater coherence, visibility and budgetary flexibility. This rationalisation is intended to generate efficiency gains which will ultimately serve the deployment of new space-driven services.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The Space Programme will be an enabler for several EU policies. It will improve the monitoring of natural resources, climate change and migration routes. It will support the deployment of smart and sustainable transport solutions and precision agriculture. It will contribute to a more secure Union. The programme will generate business opportunities thereby boosting overall jobs, growth and investments in the EU. In support of the Paris Climate Agreement, an independent capacity for monitoring and verification of global carbon emissions will enable Europe to take global leadership in the fight against climate change and the development of a green and sustainable

economy. The synergies and complementarities with **Horizon Europe** will be ensured, in particular for the space-related research and innovation actions. Finally, the Space Programme will contribute to security and defence priorities considering that space capabilities are "dual-use" by nature (i.e. for use by both civilian and military customers).

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 16 000 |



REGIONAL DEVELOPMENT & COHESION

European Regional Development Fund and Cohesion Fund

The European Regional Development Fund and the Cohesion Fund support the economic, social and territorial cohesion of the European Union. They contribute to reducing disparities that still exist between European regions and countries. In particular, the European Regional Development Fund contributes to structural adjustment and economic transition, while the Cohesion Fund focuses on investments in environment and transport infrastructure. Together with the European Social Fund, they form the funding sources for the European Union's cohesion policy.

1. EUROPEAN ADDED VALUE

Economic and social disparities vary significantly between EU regions and hamper the harmonious development of the Union. On the basis of Article 174 of the Treaty on the Functioning of the European Union, the Union aims to reduce disparities between the levels of development of its regions and to support the development of the least favoured regions. Cohesion policy is both an expression of solidarity among Europeans, and the **main investment policy** of the EU. Fostering economic convergence for the least developed regions through the European Regional Development Fund and the Cohesion Fund strengthens the Single Market and creates opportunities for workers, consumers and companies across the whole Union. In a Europe where the more and less developed regions are unevenly distributed between

countries, policies to reduce such disparities have to be organised at a level higher than the national one.

Cohesion policy supports the economic adjustment of Member States. It also plays an important role in mitigating economic and financial shocks by stabilising public investment in times of fiscal consolidation.

The European Regional Development Fund and the Cohesion Fund support development by co-financing investment in research and innovation; climate change and environment; business support to small businesses; services of general economic interest; telecommunications, energy and transport infrastructure; health, education, culture and social infrastructure; sustainable urban development and smart villages. Evidence exists that only limited parts of these investments would happen without the two Funds, even in more developed Member States and regions. In addition, they would not benefit from the framework that is put in place for the Funds, including **multiannual programming**, the **partnership principle** and the establishment of **smart specialisation strategies**.

The European Regional Development Fund also provides funding for a high profile element of European added value – the **INTERREG** programmes, which support **cross-border, transnational and interregional co-operation** across Europe and enable Member States and regions to work together across borders to address common challenges.

For over 20 years, the European Regional Development Fund has also provided specific funding for cross-border programmes supporting peace and reconciliation in **Northern Ireland and the Border Region of Ireland**. The Commission intends to propose the continuation of these programmes, based on their existing management structures.

2. OBJECTIVES

Over the 2021-2027 period, European Regional Development Fund and Cohesion Fund support will help Member States reduce their economic, social and territorial disparities thanks to interventions focused on five objectives:

- ▶ **A smarter Europe:** to promote competitiveness, digital transformation, entrepreneurship and innovation (including inclusive growth and social enterprises), and enhance the business environment as a part of industrial adaptation to the challenges of globalisation, circular economy and climate change;

- ▶ **A greener carbon free Europe: clean and fair energy transition**, to enhance energy efficiency; to support transition to low-carbon economy; to stimulate renewable energy; to support innovative use of low-carbon technologies, to support green and blue investment, including in sustainable natural resource management, circular economy, climate adaptation and mitigation;
- ▶ **A more connected Europe: mobility, energy and regional ICT connectivity** to develop regional networks and systems to promote sustainable transport, smart energy grids and high-speed digital access in order to enhance regional, local and cross-border connectivity, including security;
- ▶ **A more social Europe: implementing the principles of the European Pillar of Social Rights**, in particular life-long learning, education and training infrastructure as well as health, culture and social infrastructure;
- ▶ **A Europe closer to citizens: sustainable and integrated development**, through local initiatives to foster growth and socio-economic local development of urban, rural and coastal areas.

3. IMPLEMENTATION & SIMPLIFICATION

The Funds are implemented in partnership with the Member States and their regions through shared management. These partnerships involve a strong mobilisation of national, regional and local stakeholders, as well as civil society. This ensures ownership of objectives and achievements and brings Europe closer to its citizens. They also contribute to the strengthening of national, regional and local administrations.

A simplified and more effective approach to delivery will be a key element of the proposed new Regulations with the following changes as from 2021:

- ▶ Reduced administrative burden through synergies and the alignment of implementing rules across funds, increased cross reliance on audits and the possibility to roll-over existing management and control systems;
- ▶ Differentiated implementation via lighter management and control systems for programmes with good track records;
- ▶ Flexibility in the form of a mid-term review to adjust, if necessary, the priorities of the last programming years to address emerging priorities, take

stock of progress in addressing investment-related guidance issued alongside the Country-Specific Recommendations and performance;

- ▶ Increased use of financial instruments including through a voluntary participation in the new InvestEU Fund;
- ▶ A focus on results rather than costs.

Higher national co-financing will help increase ownership on the ground as well as the impact of the policy.

A more stable and predictable payment profile over the period will be achieved. Taking into account the importance of commitments remaining to be paid out from the 2014-2020 period, the pre-financing rate will be lowered. Reintroducing the n+2 rule will also lead to better financial management and a faster start to the programming period.

In order to maximise the impact of cohesion policy, physical investments need to be accompanied by soft measures, including upskilling of the labour force. To this end, programmes may combine European Social Fund+, European Regional Development Fund and Cohesion Fund support.

The relative per capita gross domestic product will remain the predominant criterion for the allocation of funds, while other factors such as unemployment, climate change and the reception/integration of migrants will also be taken into account.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

There will be common rules for all shared management funds (the Common Provisions Regulation) which will cover the following funds: the **European Regional Development Fund**, the **Cohesion Fund**; the **European Social Fund+**, the **European Agricultural Fund for Rural Development**, the **European Maritime and Fisheries Fund**, the **Asylum and Migration Fund**, the **Internal Security Fund** and the **Integrated Border Management Fund**. This will create a convergence of rules that will enhance coherence and synergies among these Funds.

The European Fund for Regional Development and the Cohesion Fund will be more closely aligned with the **European Semester of economic policy coordination**, which will also reinforce its regional dimension. The detailed analysis of Member States' challenges in the context of the European Semester will serve as a basis for the programming of the funds at the start and at mid-term of the next period. This will serve as the roadmap for the short, mid- and long-term planning and monitoring of the

funds. A system of ex-ante conditionalities and macro-economic conditionality will be maintained. Through the European Semester process the Commission and the Member States (notably through their National Reform Programmes) will ensure coordination and complementarity of financing from cohesion policy funds and the new **Reform Support Programme** with regard to the support to structural reforms.

Cohesion policy will increase its concentration on innovation. Complementarities with **Erasmus+** and **Horizon Europe** will also be reinforced through an alignment of relevant rules, a reinforcement of the “seal of excellence” mechanisms and a dedicated ex-ante conditionality. Further development of the smart specialisation strategy concept will continue.

Trans-European transport networks projects will continue to be financed from the Cohesion Fund via both shared management and the direct implementation mode under the **Connecting Europe Facility**. EUR 11 billion of the Cohesion Fund will be transferred to the Connecting Europe Facility for this purpose.

Synergies will be ensured with the **LIFE programme for Environmental and Climate Action**, in particular through LIFE strategic integrated projects, to optimise the uptake of funds supporting environmental investments.

Regarding migration-related challenges, all Cohesion Policy Funds will address long-term needs linked to integration, while the **Asylum and Migration Fund** will focus on shorter term needs.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Total envelope for 2021-2027 | 273 000 |
| of which: | |
| European Regional Development Fund | 226 308 |
| of which: | |
| Investment for growth and jobs | 215 172 |

| | |
|---|---------------|
| European territorial cooperation | 9 500 |
| Outermost regions and sparsely populated areas | 1 637 |
| Cohesion Fund | 46 692 |
| of which contribution to CEF Transport | 11 285 |

Note: the totals do not tally due to roundings.



REGIONAL DEVELOPMENT & COHESION

Support to the Turkish Cypriot Community

The programme aims to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community.

1. EUROPEAN ADDED VALUE

The EU is in a unique position to provide political and economic support towards the reunification of the island. At the time of Cyprus' accession to the EU in 2004, the EU stated its determination to "put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community". Therefore, in parallel to supporting negotiations for a comprehensive settlement of the Cyprus issue, it provides support through a single EU Aid Programme for the Turkish Cypriot community.

2. OBJECTIVES

The Programme aims at facilitating the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, improving contacts between the two communities and with the EU, and preparation for the EU acquis. The programme pursues five specific objectives: a) developing and restoring infrastructures; b) promoting social and economic development; c) fostering reconciliation, confidence building measures, and support to civil society; d) bringing the Turkish Cypriot community closer to the EU; and e) preparing the Turkish Cypriot community to

introduce and implement EU acquis following a comprehensive settlement of the Cyprus problem.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is directly implemented by the European Commission. Some projects are implemented under indirect management by International Organisations or Member States' agencies.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Given the specific situation of the Turkish Cypriot community, this is a stand-alone EU programme without links to other instruments, though it seeks to coordinate with other donors where possible.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

240



ECONOMIC & MONETARY UNION

Reform Support Programme

The Reform Support Programme aims to support the implementation of **structural reforms in Member States**. The pursuit of structural reforms is crucial to modernise European economies, enhance resilience and foster greater convergence within Europe's Economic and Monetary Union.

1. EUROPEAN ADDED VALUE

The **Reform Support Programme** contributes to enhancing cohesion and strengthening resilience, raising competitiveness and productivity and supporting job creation, investment and growth. By doing so, it strengthens social economic structures in the EU and accelerates economic and social convergence among Member States. To this effect, the programme will provide both technical and financial support to Member States for the implementation of these reforms.

While the implementation of structural reforms in Member States remains a national competence, the crisis years showed that due to the strong links between the economies of the Member States, notably those sharing the same currency, reform efforts in one Member State matter for other Member States and thus cannot be a purely national issue. Economic policy coordination has been strengthened at EU level in the context of the European Semester, also to place a greater focus on euro area priorities, but the implementation of Country-Specific Recommendations has been uneven across Member States. This programme will provide additional support for the implementation of reforms under the European Semester. In doing so, it will contribute to the economic and social performance and resilience of the Member States. Its impact will therefore be felt not only at national level, but will also have positive spill-over effects for the Union as a whole.

The programme will help address national reforms challenges of a structural nature. It will also allow for economies of scale and the sharing of good practice among Member States. Member States often face similar challenges and practical constraints related to the implementation of reforms. The programme will allow an EU-wide network of expertise to be established for all Member States to tap into. It will promote mutual trust and further cooperation between Member States and the Commission. The programme provides for complementarity and synergies with other Union programmes and policies at regional, national, Union and international levels, notably by complementing the policy guidance provided under the European Semester.

2. OBJECTIVES

The programme aims to promote and support the implementation of structural reforms in the Member States. The objective is to modernise European economies, enhance resilience and foster greater convergence within Europe's Economic and Monetary Union, by raising competitiveness and productivity, and support job creation, investment and growth. Ensuring resilient economic and social structures is particularly important for countries sharing the single currency and for those Member States on their way to joining the euro to help ensure their smooth transition to and participation in the euro area.

The programme seeks to support a broad range of reforms, notably those identified in the context of the European Semester of economic policy coordination. It will in particular address challenges raised in Country-Specific Recommendations. It focuses on those reforms that can contribute most to the resilience of Member States' economies and have positive spillover effects on other Member States. These include reforms in product and labour markets, tax reforms, the development of capital markets, reforms to improve the business environment and public administration reforms.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is made up of three separate and complementary instruments:

- ▶ The **Reform Delivery Tool** will provide financial support to Member States to implement structural reforms identified in the context of the European Semester of economic policy coordination. It will be administered under direct management. It will provide a financial contribution to a Member State upon implementation of reform commitments agreed with the Commission. The reforms will be voluntarily proposed by the Member States based on the challenges identified in the European Semester process. Such reforms are particularly important for Member States experiencing excessive imbalances. Member States will provide a detailed set of measures, milestones for implementation and a calendar for completion that will be no longer than three years. Following a dialogue between the Commission and the Member State, the Commission will adopt a decision by means of an implementing act setting out the reform commitments (including the milestones, targets and timeline) to be implemented by the Member State and the financial contribution allocated. Member States will report on progress through their National Reform Programme as part of the European Semester.

- ▶ The **Convergence Facility** will provide dedicated financial and technical support to Member States wishing to join the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame. The tool aims to support the implementation of reforms targeted to help prepare for successful participation in the euro area. Requests for technical support under this instrument will follow the same rules as for the technical support instrument. Proposals for reform commitments made by Member States in order to receive financial support under the Convergence Facility will follow the same rules set out for the Reform Delivery Tool. Allocations foreseen for the Convergence Facility will be transferred to the Reform Delivery Tool if by the end of 2023 an eligible Member State has not taken the necessary steps to claim support from the Convergence Facility.

- ▶ The **Technical Support Instrument** will succeed the existing Structural Reform Support Programme, in order to provide, upon request from Member States, tailor-made technical support for the implementation of institutional, administrative and growth-sustaining structural reforms. The instrument is aimed to provide hands-on support on the ground and accompany the entire reform process and/or stages or phases of the reform process. Support is provided directly through the Commission's in-house expertise or together with other providers of technical support. Depending on the project, these could include experts from national administrations, international organisations, private firms and consultancies, as well as experts from the private sector. Support for Member States is provided in a coordinated manner across policy areas and an integrated approach is pursued across sectors, while retaining a Member State perspective.

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

The programme will effectively complement the stronger link between **Cohesion Policy** and the European Semester. Together with other new instruments, such as the **European Investment Stabilisation Function**, the Programme operates as part of a global approach to a modernised EU framework supporting a stable European Economic and Monetary Union.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 25 000 |
| of which: | |
| Reform Delivery Tool | 22 000 |
| Convergence Facility | 2 160 |
| Technical Support Instrument | 840 |



ECONOMIC & MONETARY UNION

European Investment Stabilisation Function for the Economic and Monetary Union

The European Investment Stabilisation Function will help soften the effects of asymmetric shocks and prevent the risk of negative spillovers to other Member States.

1. EUROPEAN ADDED VALUE

The deepening of the Economic and Monetary Union is a common priority. It requires determined actions from Member States but it can be supported as well by adequate support from the EU budgetary and policy coordination instruments.

The EU budget has always promoted upward social and economic convergence. In recent years, the lending firepower available at EU level was also increased to respond to extreme circumstances. However, to date macroeconomic crisis support has been a limited but useful competence of the EU budget, including for instance the European Financial Stability Mechanism and the Balance of Payments instrument, while the practice of the European Structural and Investment Funds for Member States with difficulties in itself has offered a stabilising effect.

Each country differs and the size and structure of the economy matter are important factors in the likelihood of being exposed to shocks. However, the crisis highlighted the limitations of means available to individual Member States to absorb the impact of large asymmetric shocks, with some eventually losing access to the markets to finance themselves. In several instances, this resulted in protracted recessions and negative spillovers to other Member States. This is due to the strong interdependence of the economies in the euro area and – to a lesser degree – in the EU. Preventing these negative spillovers with a new tool at euro area level would therefore have a clear benefit and added value for the EU as a whole.

The specificities for this new European Investment Stabilisation Function call for a clear focus on euro area Member States, but there should be ways for other countries to participate. The new instrument complements the stabilisation role played by national budgets in the event of large asymmetric shocks. Given their central role in the economy, national budgets will continue to be the main fiscal policy instrument for Member States to adjust to changing economic circumstances. This is why Member States need to continue to build up and sustain adequate fiscal buffers, notably in good times, as provided for by the Stability and Growth Pact, and to gear economic policies to prevent the emergence of macroeconomic imbalances. In case of a downturn,

Member States will first use their automatic stabilisers and discretionary fiscal policy in line with the Pact. Only if these buffers and stabilisers are not sufficient, in case of large asymmetric shocks, should the European Investment Stabilisation Function at European level be triggered.

2. OBJECTIVES

The European Investment Stabilisation Function aims to provide resources to a Member State hit by a shock. This would have a possible impact on the deficit/debt position of the Member State concerned.

The European Investment Stabilisation Function will be distinct but complementary to existing instruments in the EU public finances toolbox. Access to the European Investment Stabilisation Function will be subject to strict eligibility criteria, which should contribute to sound fiscal and economic policy and minimise moral hazard.

3. IMPLEMENTATION & SIMPLIFICATION

The European Investment Stabilisation Function helps to support and maintain national investment levels. Investment is often first cut from national budgets in times of strain, with detrimental effects on longer-term productivity and growth.

The European Investment Stabilisation Function will combine concessional back-to-back loans of up to EUR 30 billion under the EU budget, coupled with a grant component to cover interest costs. Two additional strands are to be developed over time in the form of a possible role for the European Stability Mechanism or a future European Monetary Fund and a voluntary insurance mechanism to be set up by Member States. The grant component of the European Investment Stabilisation Function will be financed through contributions from euro area Member States equivalent to a share of monetary income (seigniorage). Non-euro area Member States wishing to participate in the European Investment Stabilisation Function would contribute to the financing according to the European Central Bank capital subscription key.

Access to the European Investment Stabilisation Function is subject to eligibility criteria and an agreed mechanism to trigger its use. Only Member States complying with the EU economic and fiscal surveillance framework during the period preceding the large asymmetric shock are eligible for access. This will avoid moral hazard and create an additional incentive for compliance with sound fiscal and structural policies. Triggering will be automatic and rapid on the basis of pre-defined parameters.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The European Investment Stabilisation Function is distinct from and complementary to existing instruments in the EU public finances toolbox. It fills the gap between, on the one hand, existing instruments financed from the EU budget for jobs, growth and investment and, on the other hand, financial assistance under European Stability Mechanism or the future European Monetary Fund in extreme cases.

Together with other new instruments as the **Reform Support Programme**, the Stabilisation Function operates as part of a global approach to a modernised EU framework supporting a stable Economic and Monetary Union.

5. INDICATIVE ANNUAL AMOUNT

| <i>Figures in current prices</i> | <i>EUR million</i> |
|----------------------------------|--------------------|
| Interest rate subsidy | 600* |

* The interest rate subsidy will be financed by external assigned revenues from contributions from euro area Member States equivalent to a share of monetary income (*seigniorage*).



ECONOMIC & MONETARY UNION

PERICLES - Protection of the euro against counterfeiting

Pericles is the EU programme dedicated to the **protection of the euro against counterfeiting and related fraud** in the EU and outside the EU.

1. EUROPEAN ADDED VALUE

The protection of the euro is crucial for the functioning of the Economic and Monetary Union and must, by definition, be ensured at EU-level. The protection of the European single currency as a public good has a clear **transnational dimension** and therefore goes beyond the interest and the responsibility of individual Member States. Considering the cross-border circulation of the euro and international organised crime in euro counterfeiting, national protection frameworks need to be complemented in

order to ensure homogeneous international cooperation and to address emerging transnational risks. The Programme promotes **transnational and cross-border cooperation** within the EU as well as **internationally** ensuring global protection of the euro against counterfeiting. It is focused in particular on countering specific emerging threats such as the deep/dark web and on the relationship with certain **external partners** such as dialogue with anti-counterfeiting authorities or support to euro protection activities in countries with hotspots of euro counterfeiting. Research on innovative security features of second generation euro coins also falls into this category of transnational themes.

2. OBJECTIVES

Building on the pillars of prevention, repression and cooperation, Pericles aims at strengthening **capacity-building** and supporting **exchange, assistance** and **training** for the protection of euro banknotes and coins against counterfeiting in the EU and abroad.

3. IMPLEMENTATION & SIMPLIFICATION

Online submission of applications and provision of relevant documentation will help simplify implementation. Delivery mechanisms will remain stable as funds are used for the provision of grants to Competent National Authorities (police, central banks, judiciary and mints) interested in implementing actions and for the financing of actions implemented directly by the Commission.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Pericles' distinct transnational and multi-disciplinary approach and focus on capacity-building is complemented by the **Internal Security Fund** dedicated to prevention of and fight against crime, and particularly efforts to prevent or combat counterfeiting linked to terrorism, organised crime, cybercrime, and environmental crime. There are also synergies with the **Technical Assistance and Information Exchange** supporting activities related to euro counterfeiting for candidate countries. Finally, the programme also complements other actions in the field of the Economic and Monetary Union, notably the **Convergence Facility** for new members of the euro area.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

8



INVESTING IN PEOPLE, SOCIAL COHESION & EUROPEAN VALUES

European Social Fund+

The European Social Fund+ is the EU's main instrument to **invest in human capital** for sustainable economic development. It **helps people to get better jobs** through upskilling and reskilling, ensures fairer job opportunities for all EU citizens and enhances **social inclusion**. In doing so, it contributes to the 2030 Sustainable Development Goals.

1. EUROPEAN ADDED VALUE

Building on the Treaty-based objectives of access to employment, quality education and social cohesion, EU funding for human capital development is one of the tangible illustrations of EU added-value. Since its creation in 1957, the European Social Fund invests in people promoting better qualifications for more citizens, equality, social fairness and social progress through concrete actions showing to citizens that the EU can empower and protect them. The European Pillar of Social Rights, as proclaimed at the Social Summit in Gothenburg in November 2017 recalled this need to put people first and to further develop the social dimension of the Union. It highlighted common principles in the areas of equal opportunities and access to the labour market, fair working conditions and social protection and inclusion.

EU funding has a catalyst effect on national interventions to address such crucial employment and social challenges. The European Social Fund also adds value through a broadened support to specific groups (such as youth and the most deprived) while supporting innovation, experimentation, joint transnational cooperation, capacity building and exchanges of good practices. Evidence has shown that for each euro spent at the EU level in employment and social investments, more than three euro are delivered in terms of outcome (increased employment rate, prevention of school drop-outs and poverty reduction). In particular, during the crisis the Fund helped maintain public investment during budgetary consolidation efforts of the Member States.

The latest economic and social crisis emphasized the need to further enhance economic and social resilience and upward social convergence since globalisation, demographic change, new technology and productivity paradigms are changing the way we live and work. The Fund can provide important support addressing these challenges, including through increasing the impact of reforms implemented under the European Semester by providing accompanying funding. Important measures to mitigate the effects of the

crisis and increased resilience of the economy and market institutions would not have been developed without its support.

2. OBJECTIVES

The European Social Fund+ supports the implementation of the principles of the European Pillar of Social Rights. It overcomes the current fragmentation of funding instruments in the social policy area and pool the scope and resources of the European Social Fund+ in its present form, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation Programme and the Health Programme under a single, streamlined comprehensive and more flexible instrument aiming at the following EU priorities:

- ▶ Promoting reforms to **improve economic and social resilience and upward social convergence**, the accessibility, resilience and effectiveness of **healthcare systems and public health policies**, notably through streamlined and better alignment of the programming with country specific recommendations within the European Semester process;
- ▶ Investing in **education and skills** (notably basic digital skills) to adapt to the current and future needs of the economy, promoting **employment** through active interventions enabling (re)integration into labour markets, notably for youth and long-term unemployed and addressing new health risks related to changing forms of work;
- ▶ Specific attention will also be given to the position of **migrants** and their integration into labour markets;
- ▶ Promoting **social inclusion**, ensuring a high level of health protection, preventing and combating **poverty and inequality**;
- ▶ **Supporting labour mobility and social innovation** through EU wide partnerships;
- ▶ Reducing inequalities in **access to public health and quality health care** among Member States, **protecting people from serious cross-border health threats** by avoiding and countering health crises, empowering health systems with emphasis on their digital transformation, supporting EU health legislation.

3. IMPLEMENTATION & SIMPLIFICATION

Simplified and more effective delivery will be one of the key elements of the European Social Fund+ with three objectives: reducing of administrative burden,

ensuring the necessary flexibility to respond to unexpected social challenges and focussing on results rather than costs. Delivery will take place mainly under shared management, but also, to a more limited extent, under direct management. The measures will translate into faster start-up of the new programmes, leading to a more stable and predictable payment profile throughout the period.

The **reduction of administrative burden** will result from sharing a single rule book aligning implementing rules across European Structural and Investment Funds, reduction of overlaps in target groups and actions, increased cross reliance on audits and a simplified programming framework together with the incentive to roll-over the existing management and control systems.

The European Social Fund+ will improve its flexibility to be more responsive to **unexpected social challenges and unforeseen opportunities**. Funding will have simplified procedures for amending programming choices, introducing financial management rules for the Fund which will allow for standardising costs and thus contribute even more accessibility and flexibility with regard to beneficiaries on the ground.

EU funding will also further shift the focus towards results. The default use of "standard simplified cost options" will facilitate access to EU funding, reducing the costs of controls and focusing programme management on the achievement of outputs and results. New provisions to disburse payments on the basis of results and meeting conditions will help to further improve the delivery of the Fund. Higher national co-financing will also help increase ownership on the ground as well as the impact of the policy.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

There will be common rules for all shared management funds (the Common Provisions Regulation) which will cover the following funds: the **European Regional Development Fund**, the **Cohesion Fund**; the **European Social Fund+**, the **European Agricultural Fund for Rural Development**, the **European Maritime and Fisheries Fund**, the **Asylum and Migration Fund**, the **Internal Security Fund** and the **Integrated Border Management Fund**. This will create a convergence of rules that will enhance coherence and synergies among these Funds.

The European Social Fund+ will be more closely aligned with the **European Semester of economic policy coordination**, which takes regional specificities into account. The detailed analysis of Member States' challenges in the context of the European Semester will serve as a basis for the programming of the funds at the start and at mid-term of the

next period. This will serve as the roadmap for the short, mid- and long-term planning and monitoring of the funds. A system of ex-ante conditionalities and macro-economic conditionality will be maintained. Through the European Semester process the Commission and the Member States (notably through their National Reform Programmes) will ensure coordination and complementarity of financing from cohesion policy funds and the new Reform Support Programme with regard to the support to structural reforms.

Adding up to mid/long-term structural interventions from the European Social Fund+, the **European Globalisation Adjustment Fund** will support workers in the face of negative impact of developments linked to globalisation including changes in trading patterns due to third country decisions.

As regards other instruments, enhanced complementarity will allow integrated support for the policy value chain, for instance offering greater possibilities to scale up **Erasmus+** transnational projects into a national policy context through support by the European Social Fund+, in particular for the disadvantaged young people, or joint competitive calls aimed at mainstreaming innovative project results from EU programmes into national policies such as skills and competences curricula developed under **Horizon Europe**. Synergies with the **Digital Europe Programme** will be developed in the area of skill development. In addition, in complementarity with the **Asylum and Migration Fund**, the European Social Fund+ will support long-term integration of third-country nationals including needs linked to integration of relocated third-country nationals.

On financial engineering, the **InvestEU Fund** will play a strong complementary role particularly by promoting access to finance through its "social investment and skills" window.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Total envelope for 2021-2027 | 101 174 |
| of which: | |
| European Social Fund | 100 000 |
| Employment and social innovation | 761 |
| Health | 413 |



INVESTING IN PEOPLE, SOCIAL COHESION & EUROPEAN VALUES

Erasmus+

Erasmus+ equips people, in particular young people, with new knowledge and skills **through study, traineeships, apprenticeships, youth exchanges, teaching, training, youth work and sport activities** all over Europe and beyond. It supports European countries **to modernise and improve their education and training systems** as well as their youth and sport policies.

1. EUROPEAN ADDED VALUE

The programme is built around three key actions: mobility, cooperation and support to policy development. Erasmus+ increases opportunities for people to have a learning experience abroad. It also provides networking and cooperation opportunities as well as capacity building activities within the Union and with third countries. It includes mutual learning and exchange of good practice. It supports innovation in systems and organisations and provides tangible results for participating individuals and institutions.

Action at EU level is essential given the transnational character and scale of these activities. The Erasmus+ Programme guarantees that all Member States benefit from mobility and exchange of good practice while ensuring optimal dissemination of results. EU action on the ground is a way of filling in the missing links, avoiding fragmentation, realising the potential of a Europe without internal borders and improving transparency and comparability of education and training systems throughout the Union. Other schemes funding comparable actions at national level remain significantly smaller both in volume and scope and do not have the capacity to substitute Erasmus+ funding.

The European Pillar of Social Rights, as proclaimed by the three institutions at the Social Summit in Gothenburg in November 2017, recalled the need to put people first and to further develop the social dimension of the Union. It highlighted common principles in the areas of equal opportunities and access to the labour market, fair working conditions and social protection and inclusion. To face the competitive job market, anticipate societal challenges and contribute to resilient economies, people need to be equipped with the right set of knowledge, skills and competences required in a fast changing world.

Therefore, Erasmus+ will support the acquisition of forward-looking knowledge, skills and competence development and build new alliances with relevant stakeholders. Erasmus+ will become a more inclusive programme increasing its accessibility - especially for small scale or grass-root organisations. It will allow more young people, including school pupils, to travel to another country for learning, including reaching out to those from disadvantaged backgrounds. Promoting awareness of EU matters and fostering active participation in society will help to tackle the lack of understanding of the EU and how it works. The levels of mobility and cooperation at European and international level will also be increased and extended in scope.

2. OBJECTIVES

The general objective of the programme is to support the implementation of EU policy objectives in the field of education and training, youth and sport, thereby contributing to sustainable growth and social cohesion and to promoting EU common values and a sense of belonging to the EU.

For education and training, this translates into the establishment of the **European Education Area** by 2025 in which learning, studying and doing research would not be hampered by borders, implementing relevant EU policies in this field, notably the **New Skills Agenda for Europe**, and following up on the Paris Declaration on promoting citizenship and the common values of freedom, tolerance and non-discrimination through education.

The programme will support and implement actions in accordance with the renewed framework for European cooperation in the youth field, addressing **learning mobility**, **capacity-building** of the youth sector, **actions to empower young people** to participate and support Member States in developing their national youth systems.

It will help developing the European dimension in sport and foster a European identity by travel experience with Interrail passes for young people.

3. IMPLEMENTATION & SIMPLIFICATION

Building on the successful implementation of the programme so far, the future Erasmus+ will maintain the current basic architecture as an integrated programme that is based on the principle of lifelong learning. Its actions cover several areas such as higher education, vocational education and training, school education, adult learning, youth and sport.

The budget of Erasmus+ will be implemented mainly via National Agencies established in each of the Erasmus+ Programme countries as well as, to a lesser extent, by the Education Audio-Visual and Culture Executive Agency and by the Commission.

Erasmus+ will decrease the administrative burden for all by simplifying procedures and processes, optimising electronic tools and making them more inter-operable and user-friendly, by reducing reporting and information obligations and better standardise the implementation of the programmes across National Agencies. Simplification and streamlining of the implementation modalities will facilitate access to Erasmus+. The delivery mechanism and rules of the international strand of Erasmus+ will also be considerably simplified and streamlined.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The programme complements national and regional actions and allows structured mobility, cooperation and policy support in a truly transnational way.

The significant complementarities between Erasmus+ and other EU instruments, including the **European Social Fund+**, and **Horizon Europe** will be strengthened. In addition, the **European Solidarity Corps** will facilitate the engagement of young people in solidarity activities in full synergy with Erasmus+, as both programmes will be implemented with the support of the Education, Audiovisual and Culture Executive Agency and of national agencies.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

30 000



INVESTING IN PEOPLE, SOCIAL COHESION & EUROPEAN VALUES

European Solidarity Corps

The European Solidarity Corps aims at facilitating the **engagement of young people in solidarity activities** in Europe and abroad, and at using those opportunities to improve their skills, competences and employability with a view to address concrete societal challenges.

1. EUROPEAN ADDED VALUE

Solidarity lies at the heart of the European Union and is one of its core values.

Since December 2016, the European Solidarity Corps has brought together all related activities under existing programmes and enabled young people to engage in solidarity activities. Since 2014, the EU Aid Volunteers initiative gives EU citizens a unique opportunity to contribute to humanitarian action in third countries.

The benefit of fostering solidarity activities at EU level is considerable. This was reaffirmed in the mid-term evaluations of the Erasmus+ programme, the main supplier of volunteering opportunities under the Corps so far, and the EU Aid Volunteers initiative. Given the scarcity of financial resources in this area, EU funded projects, in particular for multi-country activities, would not have gone forward based only on national funding. Willingness to engage exceeds the opportunities on offer: Only 8% of young people have stayed abroad for the purpose of volunteering and of those who have not done so, 76% claim that this is because of lack of opportunities. In general, more than four in ten young Europeans would like to work, study or train in another EU country.

So far over 53,000 young persons have demonstrated their interest in solidarity activities by registering on the European Solidarity Corps portal. In the absence of the European Solidarity Corps and EU Aid Volunteers, an important potential for solidarity activities would be lost, leading to detrimental effects for welfare, vulnerable communities, the development of young people and society as a whole. The European Solidarity Corps will allow the pooling existing resources and knowledge to achieve a critical mass of sustained funding for tackling EU wide challenges through solidarity activities. In-country placements require a sufficient EU dimension, such as fostering an EU policy (e.g. migration, environment) in order to be eligible.

The European Solidarity Corps supplements existing public and private policies and works in complementarity with existing national schemes. This complementary effect is ensured since the programme is aimed at addressing unmet societal needs.

2. OBJECTIVES

The European Solidarity Corps aims to enhance the engagement of young people and organisations in accessible and high quality solidarity activities. This helps to strengthen cohesion and solidarity in Europe and abroad, supporting communities and responding to societal challenges. The European Solidarity Corps builds on the current European Solidarity Corps and the EU Aid Volunteers programme with a view to:

- ▶ Addressing important unmet **societal needs** in a broad range of areas such as development and humanitarian aid, education, health, social integration, assistance in the provision of food, shelter construction, reception, support and integration of migrants and refugees, environmental protection or prevention of natural disasters, contributing to the EU goals in these policy domains;
- ▶ **Empowering young people** through their involvement in European solidarity activities. This allows the young people to develop their human and social skills that in turn enables them to become independent, active individuals. At the same time, they develop a European identity and intercultural competences, which is essential in times of persistently high youth unemployment in some parts of Europe and growing risk of lasting social exclusion for certain vulnerable groups;
- ▶ **Strengthening the foundations for engagement in solidarity activities** and providing an extended basis for supporting organisations around Europe. This also contributes to building inclusive, open communities, helping to make society as a whole more resilient;

The integration of the **EU Aid Volunteers Initiative** provides a unique opportunity for young Europeans to demonstrate solidarity with people in need around the world and contribute to humanitarian/development actions in third countries. It also provides opportunities for organisations to receive technical assistance and capacity building in disaster risk management, preparedness and response.

The European Solidarity Corps will also contribute to inter-generational solidarity, connecting young participants to other generations in projects that allow for positive synergy and mutual learning. It will further develop its platform and network of participants to foster a larger community of people engaged in solidarity activities.

3. IMPLEMENTATION & SIMPLIFICATION

The European Solidarity Corps will support the placement of participants in accredited organisations involved in solidarity projects. It will be implemented on the successful model established for the Erasmus+ programme. It is based on the clear division of programme management tasks between the Commission, the National Agencies established under the Erasmus+ Programme and the Education, Audiovisual and Culture Executive Agency.

The geographical scope of the new European Solidarity Corps covers, in the humanitarian field, all countries worldwide. For all other volunteering opportunities, potentially all countries participating today in Erasmus+ would be included. However, traineeships and jobs opportunities will be on offer only in EU Member States.

The European Solidarity Corps will ensure:

- ▶ A **holistic approach to solidarity** under a single EU instrument, covering activities both within and beyond EU borders including the humanitarian dimension;
- ▶ A single entry point (**one stop shop**) for young people interested in a solidarity, with a clear and simple access to the scheme;
- ▶ An increased number of volunteers, trainees and employees through one **single instrument**;
- ▶ The **simplification of rules** of the existing schemes and establishment of a single implementation procedure;
- ▶ Cost reductions through **economies of scale and scope** (insurance, training, communication, online platform, etc.).

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

The European Solidarity Corps will allow for a single hub for solidarity activities both within and outside the EU. The European Solidarity Corps will develop close ties and synergies with national frameworks and schemes, such as civic service programmes. Close complementarities and synergies will be ensured with the youth activities under the future **Erasmus+** Programme and the **European Social Fund+** activities aimed at fostering the employment of young people. Synergies with **LIFE**, the EU Programme for Environment and Climate Action, will also be exploited notably as complementary actions for strategic integrated projects.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 1 260 |



INVESTING IN PEOPLE, SOCIAL COHESION & EUROPEAN VALUES

Justice, Rights and Values

The Justice, Rights and Values Fund is a new EU instrument comprising two funding programmes: the **Rights and Values Programme** supporting **equality and rights** and the Justice Programme promoting the development of an **EU area of justice**.

1. EUROPEAN ADDED VALUE

Promoting, strengthening and protecting EU values, rights and justice contributes to making the EU authentic and tangible in people's day-to-day lives. By promoting and protecting equality and rights all across the EU, encouraging citizens' participation in political and civil life and supporting policies to promote equality and anti-discrimination and to combat violence, the Fund contributes to strengthening European democracy, its equal societies and civil institutions.

Promoting EU values also means protecting them and ensuring an environment respectful of the rule of law and the independence of the judiciary, where mutual recognition and mutual trust among Member States are enhanced. This is at the core of the European Area of Justice. It is through EU-funded initiatives that remaining bottlenecks hampering judicial cooperation in civil and criminal matters and the incomplete implementation of EU law can best be tackled.

The two programmes under the Justice, Rights and Values Fund will also enhance and support the key role of Non-Governmental Organisations and Civil Society Organisations in the promotion, safeguarding and awareness-raising for EU common values and in contributing to the effective enjoyment of rights under Union law.

2. OBJECTIVES

The overarching aim of the Justice, Rights and Values Fund is to sustain open, democratic and inclusive societies. It aims to empower citizens through protecting and promoting rights and values through further developing an EU area of justice.

This is pursued through the following objectives:

- ▶ Empowering citizens through the promotion and protection of rights, values and equality and through creating opportunities for engagement and participation;
- ▶ Contributing to the further development of a European area of justice based on the rule of law, on mutual recognition and trust, in particular by facilitating access to justice, by promoting judicial cooperation in civil and criminal matters and the effectiveness of national justice systems.

3. IMPLEMENTATION & SIMPLIFICATION

The new instrument combines small scale programmes with related objectives and beneficiaries so as to improve both effectiveness and efficiency of EU action. Its architecture develops synergies between current programmes, while allowing for policy specificities. On the basis of the lessons learnt from the previous generation of programmes, implementation will be streamlined to increase cost effectiveness and reduce administrative burden for example by reducing the number of underlying financial transactions.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The Justice, Rights and Values Fund has policy synergies with the **Single Market Programme** as it provides support to empower consumers and strengthen the work of enforcement authorities in the consumer area. By financing activities on company law, contract law and anti-money laundering, the future Single Market Programme will contribute directly to the implementation of the EU policy in the field of justice. Synergies will be developed and strengthened within the **European Social Fund+** with its strong and direct impact on people – including the most disadvantaged and discriminated against – and its significance for promoting gender equality and equal opportunities, EU values and the respect of fundamental rights. The **Digital Europe Programme** will enable to ensure the digital transformation of the judicial systems in the Member States, the development of “LegalTech” by EU companies and cross-border interconnection and interoperability. The promotion of values and rights within the EU is mirrored by their promotion at the global level, including through the linkages of the implementation of the Sustainable Development Goals. In this respect, synergies can also be developed with **external action** at multilateral level.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 947 |
| of which: | |
| Rights and Values | 642 |
| Justice | 305 |



INVESTING IN PEOPLE, SOCIAL COHESION & EUROPEAN VALUES

Creative Europe

Creative Europe is the EU programme that supports **European culture**, including notably **MEDIA actions**.

1. EUROPEAN ADDED VALUE

Promoting, strengthening and protecting European cultural diversity and cultural heritage and creativity helps to make the EU authentic and tangible in people's day-to-day lives. Culture therefore plays a pivotal role in addressing key societal and economic challenges. Moreover, culture has a strong role in driving innovation, economic growth and job creation.

Support to cultural diversity enables artistic and creative freedom and strengthens awareness of a shared European identity. The promotion of cultural values requires competitive and vibrant cultural and creative sectors, in particular the audiovisual industry, in order to reach citizens across Europe, notably in the context of an increasingly integrated Digital Single Market.

EU level investment in culture plays a crucial role fostering diverse and inclusive societies, and supports other EU policies through crossovers. Substantially increased added value will be ensured by focusing on areas which complement national and regional funding with a strong cross border dimension, by addressing market failures, and contributing to economies of scale and critical mass.

Mobility of professionals in the cultural and creative sectors, support to emerging talent and the promotion of artists and their works at the international level strengthens the European Union's cross-border cultural performance and its relations on the global scene. Actions to promote audience engagement and cultural participation, and supporting artistic expression strengthen Europe's creative and innovative potential that extends beyond national borders. This is particularly true for enhanced creation, circulation and promotion of culturally diverse and competitive European film content for which further scaling up and consolidating Europe's audio-visual industry is essential.

With regard to the audiovisual industry, actions under the MEDIA strand will strengthen the competitiveness of Europe's creative and audiovisual industry, by supporting the development of European works able to compete with major non-European productions, new technologies for innovative story-telling (such as virtual reality), marketing, promotion, and distribution strategies, as well as accompanying the implementation of the Audiovisual Media Services Directive.

2. OBJECTIVES

The overarching aim of Creative Europe is to sustain open, inclusive and creative societies and to strengthen the competitiveness of the cultural and creative sectors, boosting growth and job creation. The programme aims to:

- ▶ Safeguard, develop and promote European cultural diversity and Europe's cultural heritage;
- ▶ Support the creation and dissemination of quality and diverse European works, accessed by large audiences across borders;
- ▶ Support culture-based creativity in education and innovation;
- ▶ Strengthen the cross-border dimension of cultural and creative sectors;
- ▶ Improve the competitiveness and innovation capacity of the European creative and audiovisual industry.

3. IMPLEMENTATION & SIMPLIFICATION

The programme will continue to be principally implemented by the Education, Audiovisual and Culture Executive Agency. On the basis of the lessons learnt from the previous generation of programmes, implementation will be streamlined to increase cost effectiveness and reduce administrative burden for example by reducing the number of underlying financial transactions. The Creative Europe Desks will be delivering more streamlined and better focussed communication, dissemination and feed-back on results.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Creative Europe has strong synergies with the **Single Market Programme** as the promotion of culture and media are directly contributing to the implementation of the Digital Single Market strategy. Synergies with **Erasmus+** will be reinforced by more systematically mainstreaming the needs of cultural education and training institutions into the existing and future actions. The **Digital Europe Programme** will support the digital transformation of the cultural heritage sector (e.g. Europeana), thus contributing to the implementation of the #digital4culture strategy. In order to leverage private investment, equity and debt financing will be made available to cultural and creative small and medium-sized enterprises via the **InvestEU Fund**. Under **Horizon Europe**, the cluster on inclusive, resilient and secure societies will support research and innovation activities in the fields of media convergence and culture.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 1 850 |
| of which: | |
| MEDIA | 1 200 |
| Culture | 650 |



AGRICULTURE & MARITIME POLICY

European Agricultural Guarantee Fund & European Agricultural Fund for Rural Development

The Common Agricultural Policy is the core policy of the Union aiming to increase **agricultural productivity**, ensure a **fair standard of living for farmers**, **stabilise markets** and **enhance competitiveness**. A modernised Common Agricultural Policy will need to support the transition towards a fully sustainable agricultural sector and the development of **vibrant rural areas**, providing **secure, safe and high-quality food** for over 500 million consumers.

1. EUROPEAN ADDED VALUE

Europe needs a smart, resilient, sustainable and competitive agricultural sector in order to ensure the production of safe, high-quality, affordable, nutritious and diverse food for its citizens and a strong socio-economic fabric in rural areas. A modernised Common Agricultural Policy must enhance its European added value by reflecting a higher level of environmental and climate ambition and addressing citizens' expectations for their health, the environment and the climate. The global and cross-border nature of the key challenges faced by EU agriculture and rural areas require a common policy at EU level. These challenges are addressed by:

- ▶ Securing a single market and level playing field via a common income safety net and avoids potential distortions of competition;
- ▶ Shoring up EU farming sector resilience necessary to harness globalisation;
- ▶ Delivering on key sustainability challenges like climate change and biodiversity, as well as soil, water and air quality.

A modernised policy will allow maintaining a fully integrated Single Market for agricultural goods in the EU while increasing the emphasis on a sustainable production with increased ambition regards the environment and climate. Disparities in the development of the farming sector will be reduced and crisis preparedness will be increased.

2. OBJECTIVES

The post-2020 Common Agricultural Policy focuses on objectives covering all three dimensions of sustainable farming in the EU:

- ▶ To foster a smart and resilient agricultural sector;
- ▶ To bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU;
- ▶ To strengthening the socio-economic fabric of rural areas.

It will also need to continue to address societal expectations regarding sustainable food production, in particular concerning food safety, food quality, environmental and animal welfare standards. The policy will reflect a higher emphasis on advice, knowledge transfer and cooperation.

3. IMPLEMENTATION & SIMPLIFICATION

The policy will continue to be implemented primarily under shared management between the EU and the Member States. It will be financed through two funds, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. A **new delivery model** will be put in place by bringing together the operations under a single programming instrument, the **Common Agricultural Policy Strategic Plan**. Based on a common set of objectives set at EU level and fully respecting the EU's international commitments, Member States will have more room to identify their needs and to define the intervention schemes, provided they are pertinent to achieve the EU specific objectives. Such EU specific objectives shall be aligned with those of other EU policies, such as environment and climate.

The Common Agricultural Policy Strategic Plans will be approved by the Commission if they are consistent and contribute in an adequate manner to the achievement of EU objectives and targets. This new model represents a shift from today's compliance-based policy to a result-oriented policy aimed at delivering on common objectives set at EU level. It will also allow Member States suitable room to cater for specific needs at national or regional level. A set of impact indicators will be used for evaluating the long-term performance of the policy, while common output and result indicators will help to monitor implementation. The new delivery model will entail **a far-reaching simplification of rules for farmers and administrations**.

- ▶ Direct payments will remain an essential part of the policy, but they will be moderately reduced and better targeted. Basic income support through direct payments, in particular decoupled payments, will form part of the interventions covered by the Strategic Plan established by Member States.
- ▶ Member States will have the option of shifting a part of their allocations of direct payments to rural development and vice versa.
- ▶ Currently, 20% of farmers receive 80% of direct payments reflecting a system where payments are linked to land which is concentrated among a minority of farmers.
- ▶ A more balanced distribution should be promoted through compulsory capping at farm level (with exemption of cost of labour) or degressive payments decreasing with farm size. The savings will remain in the envelope of the Member State in which they originate for redistributing the support towards rural development or medium and smaller farms.
- ▶ Direct payment levels per hectare between Member States will continue to converge (external convergence). For all Member States with direct payments

below 90% of the EU-27 average, the gap between their current level and 90% of the EU average direct payments will be closed by 50%. This convergence will be financed by all Member States.

- ▶ The "greening" as currently applied will be replaced by integrating current cross compliance, green direct payments and voluntary agro-environmental and climate measures into a more targeted, more ambitious yet flexible approach, in view of a higher level of environmental and climate ambition of the Common Agricultural Policy.
- ▶ Support for risk management tools including income stabilisation tools will need to be introduced in the Strategic Plans. A new crisis reserve will be established within the European Agricultural Guarantee Fund. Access will be conditional on the set-up of a strategy at national level of appropriate risk management tools (such as insurance type instruments).

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Modernising the Common Agricultural Policy will help develop more synergies and make it more coherent with other EU policies, in particular environment, climate action, regional development and research and development. Higher policy coherence will result in simplification for administrations and farmers alike. A higher environmental ambition cannot be reached without strong support for knowledge, innovation and technology. Successful synergies with **Horizon Europe** will continue to be secured and developed in the cluster on “Food and Natural Resources” whose objective is to make agriculture and food systems fully safe, sustainable, resilient, circular, diverse and innovative. A reinforced focus on developing and using scientific knowledge in EU agriculture is essential for its modernisation and transition to a sustainable future. This is why an amount of EUR 10 billion will be foreseen under Horizon Europe to support research and innovation in food, agriculture, rural development and the bioeconomy. Synergies will also be ensured with the **LIFE** Programme, the EU Programme for Environment and Climate Action, to optimise the uptake of funds supporting environmental investments. Equally, operational assessments of the state of the agricultural environment and impact of policies can be secured by fostering close synergies with the **Space Programme**.

A simplified framework of EU objectives and basic rules will be common with the other **European Structural and Investment Funds** to the extent possible.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|---|--------------------|
| Total envelope for 2021-2027 | 365 005 |
| of which: | |
| European Agricultural Guarantee Fund | 286 195 |
| European Agricultural Fund for Rural Development | 78 811 |



AGRICULTURE & MARITIME POLICY

European Maritime and Fisheries Fund

The European Maritime and Fisheries Fund is the EU's dedicated programme to support a **sustainable EU fisheries** sector and **the coastal communities** dependent on it.

1. EUROPEAN ADDED VALUE

The global nature of the maritime ecosystem requires the EU to act at international level to protect, conserve and sustainably use the oceans and their resources. EU action is far more efficient and effective than at any individual Member State level. Marine biological resources would soon be depleted without coordinated EU action, having immediate repercussion on the availability of fisheries products and the destruction of the marine ecosystem. The Fund supports the protection of marine biodiversity and ecosystems and helps to boost investments, jobs and growth, foster innovation through research and development and contributes to energy and climate objectives.

Overcapacity of the EU fleet and overfishing is still a problem in many segments and across sea-basins. Structural problems still prevail in the fisheries sector, notably in trans-national sea basins and coastlines covering several Member States, which cannot successfully be addressed acting alone. The Integrated Maritime Policy provides a coherent approach to maritime issues through close coordination and cooperation across sectors.

Promoting the blue economy in fisheries and aquaculture, tourism, ocean energy or blue biotechnology, in coastal communities, at EU level provides real EU added value by encouraging EU governments, industry and stakeholders to develop joint approaches to drive growth, while safeguarding the marine environment.

2. OBJECTIVES

The European Maritime and Fisheries Fund will focus on three objectives:

- ▶ **Safeguarding healthy seas and oceans and delivering sustainable fisheries and aquaculture** by reducing the impact of fisheries on the maritime environment while enhancing the competitiveness and the attractiveness of the fisheries sector;
- ▶ **Promoting the blue economy**, particularly by fostering sustainable and prosperous coastal communities towards investment, skills, knowledge and market development;
- ▶ **Strengthening international ocean governance and the safety and security of maritime space** in areas which are not already covered by the international fisheries agreements.

3. IMPLEMENTATION & SIMPLIFICATION

The programme will be implemented in both shared and direct management. Grants and Financial Instruments will be the main funding tools. In shared management, Member States will be the main actors directly supporting beneficiaries. Direct management will be used to promote innovative policy development with an immediate impact in maritime policy activities and in the field of international ocean governance and maritime security.

The Fund will share a common legal basis with all the **European Structural and Investment Funds**. However, a sector-specific Regulation and a limited set of implementing and delegated acts are foreseen.

Simplified Cost Options (flat rates, lump-sums and unit costs) will be increasingly used to reduce the administrative burden. There will also be a large flexibility for Member States to tailor measure to objectives pre-defined at EU level. In addition, the adoption of e-procurement and e-grant modules in the case of direct management will be promoted, with the possibility to further externalise direct management of funds to executive agencies.

To increase the **flexibility**, the possibility to combine funding between the European Structural and Investment Funds as well as between shared and direct management will be increased. In addition, a larger availability of financial instruments (loans, guarantees) and repayable assistance such as repayable grants at programme level will be the standard for all support towards developing and improving the profitability of enterprises in the fisheries sector. Finally, Member States will have more flexibility in reacting to unforeseen circumstances and addressing changing spending priorities.

The Fund will also move towards a **more results-based support model** based on a pre-defined list of detailed measures Member States can choose from. Better information systems based on integrated data frameworks will strengthen the policy impact.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Synergies for the maritime and blue economy will be exploited in particular with the **European Regional Development Fund** for the investment in blue growth sectors and for sea-basin strategy, with the **European Social Fund+** to re-train fishers in acquiring skills and the **European Agricultural Fund for Rural Development** for support to aquaculture. The collaboration and synergies with **Horizon Europe** for marine research and innovation will be achieved, for instance by supporting small and medium-sized enterprises for the deployment and market replication of innovative solutions for blue growth and by supporting a thematic investment platform for research and innovation in the blue economy. Synergies with LIFE, the EU Programme for Environment and Climate Action, will also be exploited for supporting actions aimed at improving the marine environment, notably as complementary actions for strategic integrated projects. The **InvestEU Fund** will play an important role with financial instruments for market related action, in particular by supporting a thematic investment platform for research and innovation in the Blue Economy.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

6 140



AGRICULTURE & MARITIME POLICY

International Fisheries Agreements

International fisheries agreements allow the EU fishing fleets **access to third country waters** and require the financing of compulsory annual contributions deriving from **EU membership in Regional Fisheries Management Organisations**.

1. EUROPEAN ADDED VALUE

The EU is one of the leading maritime and fisheries players in the world. It promotes the sustainable management of international fish stocks and defends EU economic and social interests. Within the EU, the promotion of sustainable fisheries is the exclusive competence of the Union as the cross-boundaries dimension of fisheries requires EU-wide action. This is even more important for international action, whether when negotiating fisheries agreements or when participating to the Regional Fisheries Organisations.

The EU has also committed itself to take a leading role in implementing the UN's Sustainable Development Goal "to conserve and sustainably use the oceans, seas and marine resources" and is thus interested to shape international ocean governance – including resource conservation and stemming illegal fishing – in the frame of its international fisheries agreements.

More than a quarter of the fish caught by European fishing boats are taken outside EU waters. Therefore, the EU benefits from fisheries agreements for sustainable EU food supply, for developing its fisheries sector, the coastal communities depending on it and a sustainable blue economy. In addition, indirect benefits emerge from supporting third countries in the form of addressing migration and local socio-economic development. In the context of the Sustainable Fisheries Partnership Agreements, the EU provides financial and technical support to establish a legal, environmental, economic and social governance framework for fishing activities carried out by Union vessels in third country waters. The EU has a joint management of shared stocks with Norway, Iceland and the Faeroe Islands. Such agreements play an important role in developing stronger relations with third countries and promoting the role of the European Union on the global stage.

The EU is a Contracting Party to the UN Convention on the Law of the Sea and the UN Fish Stocks Agreement. It must cooperate with other fishing nations and be a member

of Regional Fisheries Management Organisations for fishing in high seas. As the sole representative for all EU fishing interests, the EU is a leading member in these organisations and has the clout and authority to defend its interests more effectively and forcefully than EU Member States separately.

2. OBJECTIVES

In the mutual interest of the EU and its partners, the International fisheries agreements programme aims to:

- ▶ Secure **access of the EU fleet to the waters under jurisdiction of third countries**;
- ▶ Provide funding to enhance **capacity building of the coastal States** to establish a sustainable management of fishery resources and strengthening the **monitoring, control and surveillance of fishing activities** in their waters in particular to tackle **illegal, unregulated and unreported fishing**;
- ▶ Develop and support the necessary **scientific and research institutions**;
- ▶ Enhance transparency and promote the **level playing field between all the fleets** operating in the waters concerned;
- ▶ Strengthen and promote **governance of the oceans** in regional fisheries bodies.

In addition to being a legal requirement when fishing in international waters, the **membership to regional organisations** allow the EU to promote principles of the **Common Fisheries Policy** outside of EU waters as much as possible to create a level playing field for EU operators. As a member of these organisations the EU is bound to participate in financing of the operations of the regional organisations through compulsory contributions.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is directly implemented by the European Commission by way of financial contribution.

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

The synergies with the Common Fisheries Policy are vital to the successful implementation of the fisheries agreements.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 990 |



ENVIRONMENT & CLIMATE ACTION

LIFE - Programme for the Environment and Climate Action

LIFE is the EU Programme for the Environment and Climate Action. It focuses on developing and implementing **innovative ways to respond to environment and climate challenges** thereby catalysing changes in policy development, implementation and enforcement.

1. **EUROPEAN ADDED VALUE**

By their very nature, environmental problems, including climate change, transcend political, legal and man-made boundaries and cannot be adequately solved by Member States alone. EU intervention in the form of a dedicated instrument for environment and climate, including energy efficiency and small-scale renewables, is required to efficiently address such problems, avoid coordination failures, and complement environment and climate mainstreaming across the EU budget with targeted actions.

Most environmental assets are public goods that are unevenly distributed across the EU. The obligation to preserve them calls for a consistent application of the principles of responsibility sharing and solidarity. Consistency across the EU on the application of EU environmental and climate legislation and policies as well as the provision of an EU-level platform for sharing best practices and know-how is crucial. Facilitating a clean energy transition contributes to both environmental and climate objectives by

contributing to better indoor and outdoor air quality, circular economy and efficiency of resources. It has strong added value by stimulating a competitive and sustainable Union economy. Furthermore, supporting energy efficiency is one of the most cost-effective ways of decarbonising our economy.

2. OBJECTIVES

The programme will contribute to:

- ▶ The shift towards a **circular, resource- and energy-efficient, low-carbon and climate-resilient economy**;
- ▶ The protection and improvement of the **quality of the environment**;
- ▶ Conserving nature and halting and reversing **biodiversity loss**.

The programme will also aim to build capacity, stimulate investments and supporting policy implementation in the fields that are most challenging for a **clean energy transition**.

Programme objectives will be pursued either through direct interventions or through the integration of these objectives in other policies and by enabling the coordinated use of funds available in other EU financial programmes.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is structured around two main fields of actions:

- ▶ **Environment: Nature and Biodiversity**; and **Circular Economy and Quality of Life**;
- ▶ **Climate Action: Mitigation and Adaptation**; and **Clean Energy Transition**.

The grants and public procurement part of the LIFE programme will continue to be directly managed by the Commission with the support of an executive agency.

The programme will be simplified in particular as regards the procedures for the applicants/beneficiaries. Novelties also include a greater strategic flexibility and ways to achieve a more balanced territorial coverage.

Financial Instruments for Environment and Climate Action will be implemented in the **InvestEU Fund**, in particular in its Sustainable Infrastructure window.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES / ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The LIFE Programme fits into the EU's existing priorities on environment, climate, energy and associated policies. It is complementary to other EU funding programmes. Synergies will be developed in particular with the **InvestEU Fund**, notably its sustainable infrastructure window, **Horizon Europe**, the **European Regional Development Fund**, the **European Social Fund+**, the **European Agricultural Fund for Rural Development** and the **European Maritime and Fisheries Fund**. To maximise results, the "Seal of Excellence" scheme will be expanded to allow projects successfully evaluated under the LIFE Programme to be funded at regional level under the European Structural and Investment Funds.

LIFE is designed to support demonstrating techniques and best practice that can be replicated and upscaled in larger programmes. LIFE Strategic Integrated Projects mobilise other European, national, regional and private funds for the implementation of key environmental and climate plans (e.g. river basin management plans, clean air plans, etc.). The integration of **clean energy transition support** actions will strengthen the overall programme coherence and synergies in the implementation of the EU environmental, climate and clean energy policies supported by the projects.

All actions undertaken under LIFE will be compatible with the EU's long-term climate and environmental objectives

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 5 450 |
| of which: | |
| Environment | 3 500 |
| Climate | 1 950 |



MIGRATION

Asylum and Migration Fund

The Asylum and Migration Fund contributes to **the effective management of migration flows**. It supports activities and measures related to **asylum, legal migration** and **integration** as well as **irregular migration** and **return**.

1. EUROPEAN ADDED VALUE

The migration crisis of 2015 showed that Member States cannot address the migration related challenge alone. EU action was able to provide a comprehensive and swift reaction in supporting the capacity of Member States and a policy response, framed by the European Agenda for Migration. This set out the action needed to save lives, to secure the external border of the Union, to support a strong common asylum policy, to address incentives for irregular migration and to promote a new policy for legal migration. All these work streams have been taken forward. The steady implementation of the EU-Turkey Statement, the Partnership Framework and the joint actions taken on the Central Mediterranean route have significantly reduced the number of irregular arrivals. At the same time, the management of the EU's external borders has taken a major step forward with the establishment of the hotspots approach and a significantly reinforced FRONTEX, the **European Border and Coast Guard Agency**.

The challenges in the areas of asylum, migration and external borders are transnational in nature and cannot be adequately addressed by Member States acting alone and all Member States benefit from the actions taken in 'front line' Member States supported by the EU budget. While the number of third country nationals currently arriving irregularly in the EU is progressively becoming smaller, migration will remain a challenge for the years to come. Furthermore, the abolition of internal border controls requires common measures for the effective control and surveillance of the Union's external borders, as well as a common asylum and migration policy.

Article 80 of the Treaty on the Functioning of the European Union expressly states that the common policies of asylum and migration and external borders are based on the principle of solidarity and fair sharing of responsibilities between Member States. EU funding provides the concrete financial means to translate this principle into practice.

Migration is a structural challenge. The EU needs stable and adequate tools to respond. Promoting solidarity and responsibility-sharing through resettlement and relocation,

increasing legal channels for entry into the EU for persons in need of international protection, reception, integration and return of third country nationals and the completion of a Common European Asylum System, will all have financial implications.

The EU's response to the crisis has required a strong mobilisation of the EU budget to ensure that challenges could be addressed swiftly and effectively. It is a tangible manifestation of how the EU support the Member States. The funding initially earmarked for security and migration in the current Multiannual Financial Framework had to be doubled in order to respond to the scale of the needs. Discontinuing or scaling back existing EU financial interventions would have a significant, even critical, impact on the implementation of the European Agenda for Migration.

The EU will continue facing challenges in the field of migration and it is clear that these cannot be managed by Member States alone, nor without the financial and technical support of the EU. The Programme's EU added value is notable in supporting the management of high arrivals of migrants and asylum seekers, search and rescue capacities to save the lives of those attempting to reach Europe, management of returns and other actions that need coordinated Union response and are beyond the capacity of individual Member States.

2. OBJECTIVES

The key objective of the **Asylum and Migration Fund** will be the contribution to the **efficient management of migration flows**. More specifically the Fund shall contribute to:

- ▶ Strengthening and developing the **Common European Asylum System**, encompassing measures relating to policy, legislation and capacity building;
- ▶ Enhancing **effective and fair return policies** and contribute to **combating irregular migration**, with an emphasis on effective national procedures and structures, sustainability of return and effective readmission in third countries;
- ▶ **Enhancing solidarity and responsibility-sharing** between Member States, in particular towards those most affected by migration and asylum flows, including through practical cooperation;
- ▶ Supporting **legal migration** into Europe and contributing, in the early integration phase, to the effective integration of third country nationals;
- ▶ Supporting the **external dimension** of the EU migration and asylum policy in full coherence and synergies with the EU's external action.

3. IMPLEMENTATION & SIMPLIFICATION

Shared management should be the prime vehicle for implementation of the Fund, as it will ensure a level playing field, avoid the mismatch between needs and competition for funding. It will allow funding predictability and long-term planning, and guarantee the necessary expenditure for each Member State, while securing the ability to implement the Union priorities across the EU. Shared management will be complemented with direct – and to a limited extent indirect - management and implementation via Union transnational actions and through **Emergency Assistance**, complementing the national programmes of Member States with significant funding needs. The Thematic Facility would channel funds to support pre-established priorities through Union actions, emergency funding and top-ups to national programmes.

Union Agencies, notably the European Border and Coast Guard Agency and the European Asylum Support Office, play a key operational, coordination and advisory role in the implementation of EU priorities in the field of asylum and migration. They have their own budgets to carry out their tasks, separate from the Fund.

Flexibility will be a key element in the new Asylum and Migration instrument, as challenges in the area of migration are not predictable in advance and geopolitical developments can have direct repercussions on migration flows. Flexibility is essential as regards allocation to Member States. A part of funding will be allocated upfront, while a significant envelope would be allocated subsequently to specific priorities, so that funding can be targeted to reflect changed circumstances or urgencies.

The **monitoring and evaluation framework will be improved** to stimulate timely performance of national programmes and to ensure that evaluations can provide effective input for any future revisions of policy interventions. The improvement of indicators and the reinforcement of the partnership principle for the management of the Fund will contribute to solid monitoring and evaluation.

Harmonisation and simplification: The new instrument will benefit from the new shared management Regulation which will make rules more simple and harmonised across the board.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Synergies will be established with the Integrated Border Management Fund and the Internal Security Fund as well as: i) with **Cohesion Policy**, as regards the **medium and long term integration of third country nationals**, including the integration related to transfers and ii) with the new **Neighbourhood, Development and International**

Cooperation Instrument, which should include a strong emphasis on migration, including for its unallocated share for emerging challenges.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027*

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 10 415 |

* See also the envelope for the Integrated Border Management Fund, amounting to EUR 9 318 million.



BORDER MANAGEMENT

Integrated Border Management Fund

The Integrated Border Management Fund aims to guarantee a better and **integrated management of the EU's external borders**, higher level of **border security** in the Union, as well as the **integrity of the supply chain**, while safeguarding the free movement of persons and goods and ensuring that legitimate trade is not impaired.

1. EUROPEAN ADDED VALUE

The Integrated Border Management Fund will play a key role in the management of the external borders, including by providing indispensable support to the Member States in securing the external borders of the Union as a manifestation of the shared responsibility for the protection of our common borders and by supporting Member States to have adequate customs control equipment.

The instrument will contribute to the further development of the common visa policy and the implementation of European Integrated Border Management by Member States, to help combat irregular migration and facilitate legitimate travel. Funding should continue to provide support to Member States to build and enhance their capacities in these areas and to reinforce cooperation, including with the relevant Union Agencies.

Since the establishment of the customs union, the customs authorities have been taking on an increasing number of responsibilities which go far beyond the supervision and

facilitation of EU trade and which extend to the field of safety and security. The Fund will play a role in ensuring more uniformity in the performance of customs controls at the external borders, by addressing the current imbalances between the Member States due to geographical differences and differences in capacities and resources available. This would not only strengthen customs controls but also facilitate legitimate trade, contributing to a secured and efficient custom union.

Borders policy is by nature transnational. A threat posed to one Member State affects the EU as a whole, thereby confirming the need for action at EU level. The migration and terrorism challenges of the past years could not have been managed by individual Member States acting alone and without the financial and technical support of the EU. In addition, action at EU level is needed to ensure that all customs authorities have the necessary tools to fulfil their functions at the EU borders thereby reducing the security and financial risks as well as avoiding customs shopping which would have an impact on the entire Union.

2. OBJECTIVES

The Integrated Border Management Fund will have two components which will contribute to:

Border management and visa (persons):

- ▶ Promoting the uniform implementation, further development and modernisation of the common policy on **short-stay visas**, including the **digitisation of visa processing**;
- ▶ Further developing different **forms of consular cooperation**;
- ▶ **Enhancing border control by reinforcing the Member States' capacities**, including by facilitating legitimate border crossings and, where appropriate, preventing and detecting terrorism and cross-border crime, such as migrant smuggling, trafficking in human beings and supporting the Member States facing existing or potentially disproportionately migratory pressure at the EU external borders;
- ▶ Supporting the development, operation and maintenance of **information systems**, including interoperability;
- ▶ Enhancing **inter-agency cooperation** at national level among national authorities in Member States, responsible for border control or for other tasks carried out at the border;

- ▶ Carrying out **risk analyses and identifying threats** that may affect the functioning or the security of the external borders;
- ▶ Ensuring the **uniform application of the Schengen acquis** on external borders;
- ▶ Further development of the **European Border and Coast Guard** and contributing to the exchange or secondment of border guards and other relevant experts between Member States or between a Member State and a third country.

Customs control equipment (goods):

- ▶ Achieving the full potential of the customs union by safeguarding its financial interests, preventing illicit trade and fraud through equivalent and **adequate customs controls at the EU border**;
- ▶ Promoting the **co-sharing of control equipment** (e.g. X-ray scanners, Automatic Number Plate Recognition System, etc.) between all concerned law enforcement authorities.

3. IMPLEMENTATION & SIMPLIFICATION

The border management and visa component will be implemented through shared management via multiannual programmes by Member States, while an envelope will be channelled through direct or - to a limited extent - indirect management and implementation via Union actions. Through **Emergency Assistance**, the Fund will react to unforeseen circumstances and would complement the programmes of Member States with significant funding needs. A Thematic Facility will allocate funding to pre-established strategic priorities through Union actions, emergency funding and top-ups to the Member States' programmes. Shared management will ensure a level playing field and reduce the adverse effects of competition for funding, will allow for funding predictability and long-term planning and will guarantee necessary expenditure in all Member States, while securing the ability to implement the Union priorities across the EU. As regards the customs control equipment component, it will be implemented in direct management.

A number of Agencies support the EU's work in the area of borders and visa, in particular the **European Border and Coast Guard Agency (FRONTEX)**, **Europol** (European Agency for Law Enforcement Cooperation) and **eu-LISA** (European Agency for the operational management of large-scale Information Technology systems in the area of freedom, security and justice). They have their own budgets to carry out their tasks, separate from the Fund.

The Fund should also entail **increased flexibility** to respond to unforeseen developments, which are not unusual in the area of border management. In the case of border management and visa, part of the funding will be allocated upfront, while a significant envelope would be allocated subsequently and periodically to specific priorities, to address changing circumstances or urgencies. The Fund will benefit from using the **lighter, more simplified rules** applicable to other shared management Funds. This would also allow moving towards a **single set of rules** that follows the principle of proportionality and that equally fits all EU Funds under shared management.

The monitoring and evaluation framework should be improved to stimulate timely performance on national programmes and ensure that evaluations can provide effective input for any future revisions of policy interventions. Improving the indicators, reinforcing the partnership principle for the management of the Fund and performing a mid-term performance review linked to performance-based rewarding (not applicable to customs control equipment) will contribute to solid monitoring and evaluation.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

As regards borders and visa, synergies between the new instruments on Integrated Border Management and the **Asylum and Migration Fund** and the **Internal Security Fund** will be established, as well as with other instruments in particular with funds and programmes in the areas of maritime security and surveillance, security research, security of infrastructure, **Cohesion Policy** and the instruments supporting the external dimension of border management. As regards customs control equipment in particular, synergies will be established with the **Customs Programme**. Effective coordination mechanisms are crucial to maximise the effectiveness in the achievement of policy objectives and to exploit economies of scale. This will ensure complementarity and clarity between the scopes of intervention of all instruments, including clarity for beneficiaries.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027*

Figures in current prices

EUR million

| | |
|-------------------------------------|--------------|
| Total envelope for 2021-2027 | 9 318 |
| of which: | |
| Border management and visa | 8 018 |
| Customs control equipment | 1 300 |

* See also the envelope for the Asylum and Migration Fund, amounting to EUR 10 415 million.



SECURITY

Internal Security Fund

The Internal Security Fund contributes to ensuring a high level of security in the Union by tackling **terrorism and radicalisation**, **organised crime** and **cybercrime** and by assisting and protecting **victims of crime**.

1. EUROPEAN ADDED VALUE

Over recent years, security threats have intensified and diversified in Europe. Terrorist attacks, new avenues of organised crime, and ever-growing cybercrime have a cross-border dimension which demands a strong EU response. EU action has provided a comprehensive and swift reaction to these challenges and the general policy response was formulated in 2015 by the Agenda on Security. Security will remain a defining issue for the EU for years to come and Europe's citizens expect their Union and national governments to deliver security in a fast-changing and uncertain world.

The challenges the Union is facing, notably from international terrorism, cannot be managed by individual Member States alone and without the financial and technical support of the EU. In an era where terrorism and other serious crime operate across borders, both the European Union and its Member States have a responsibility towards their citizens to deliver an area of security where individuals are protected, in full compliance with EU fundamental rights. In this regard, the Treaties envisage the need to ensure a high level of security, including through preventive measures, and through coordination and cooperation between police, judicial and other competent authorities. This needs to be provided at EU level.

EU support provides significant added value to national funding by stimulating cooperation and exchange of information between Member State law enforcement officials and other relevant authorities, in particular by enabling the interoperability of the different security systems and making EU information systems more effective and efficient, and by facilitating joint operational actions, as well as by providing support for training, for the construction of essential security-relevant facilities and the purchase of necessary technical equipment. For example, in the aftermath of the terrorist attacks in Paris in 2015, Emergency Assistance helped to put in place a digital solution to process large amounts of surveillance data, increasing the preparedness of the Union to possible future threats.

2. OBJECTIVES

The Internal Security Fund specifically aims to:

- ▶ Increase the **exchange of information** between law enforcement and other authorities within the EU, including with Europol and other relevant Union bodies, third countries and international organisations in relation to the prevention, detection and investigation of serious and organised crime with a cross-border dimension;
- ▶ Intensify **cross-border joint operations** between law enforcement and other competent authorities within the EU, including with security relevant Union agencies and other Union bodies, third countries and international organisations in relation to the prevention, detection and investigation of serious and organised crime with a cross-border dimension;
- ▶ Ensure collective responses to security threats by **increasing capabilities and enhancing EU preparedness and resilience**, including by increasing cooperation among public authorities, civil actors and private partners from across EU Member States and third countries, including Union agencies and international organisations.

3. IMPLEMENTATION & SIMPLIFICATION

The Internal Security Fund is mainly implemented through shared management via multiannual programmes implemented by Member States and as well through direct or - to a limited extent also - indirect management. **Emergency Assistance** can complement the programmes of Member States by swiftly responding to an emergency situation. Shared management allows for funding predictability and long term planning; it guarantees an allocation to all Member States, while securing the ability to implement common priorities across the Union. However, for a better steer of funds towards the EU priorities, shared management is complemented by a Thematic Facility that would be available to channel funds to support action supporting pre-established priorities through direct and indirect management through Union Actions, Emergency Assistance and top ups of Member States' programmes.

Several decentralised agencies such as **Europol** (EU Agency for Law Enforcement Cooperation), and **CEPOL** (Agency for Law Enforcement Training) play key operational, coordination and advisory roles in the implementation of the EU priorities and objectives in the area of security. They have their own budgets to carry out their tasks, separate from the Fund.

Drawing on the experience of the current programme, the future Fund will further simplify the rules for its beneficiaries. The key operational features include:

- ▶ An increased **flexibility** to respond to unforeseen developments, a common feature of the area of security. A part of funding will be allocated upfront, while a significant envelope would be allocated subsequently to specific priorities, periodically allowing to react to changed circumstances or urgencies (via the Thematic Facility);
- ▶ A further **simplification** as it will benefit from the new shared management regulation which will make rules more simple and harmonious across the board;
- ▶ Further **improvements to the monitoring and evaluation** framework to stimulate timely performance of programmes and to ensure that evaluations can provide effective input for any future revisions of policy interventions. The improvement of indicators, the reinforcement of the partnership principle for the management of the Fund and a mid-term performance review will contribute to solid monitoring and evaluation.

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

Security is a cross-cutting issue and the new Internal Security Fund cannot provide an effective EU response without other funding instruments, including the **European Structural and Investment Funds** and external instruments. Synergies of the Internal Security Fund with other related instruments will be established in particular on the following aspects: border management and customs control equipment, security of infrastructure and public spaces, cybersecurity (cybersecurity is a key theme of the **Digital Europe Programme**, with the Fund focusing on cyber-crime), the prevention of radicalisation, and the external dimension of security. Effective coordination mechanisms are crucial to maximise the effectiveness in the achievement of policy objectives and to exploit economies of scale, as there would be complementarity and clarity between the scopes of intervention of all instruments, including clarity for beneficiaries.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 2 500 |



SECURITY

Nuclear Decommissioning in Lithuania

The programme provides **support to Lithuania to safely decommission first generation nuclear reactors.**

1. EUROPEAN ADDED VALUE

As a condition for its accession to the European Union, Lithuania took the commitment to close and subsequently decommission two Soviet-designed first generation nuclear reactors for which an upgrade to Western safety standards was deemed uneconomical. Correspondingly, the EU committed itself in Article 3 of Protocol No. 4 of the Act of Accession of 2003 to financially support the decommissioning.

To date the decommissioning activity is progressing with an end foreseen in 2038. It is in the interest of the Union to continue providing strictly targeted financial support, contributing to ensuring the highest level of safety of the operation. The programme provides substantial and lasting support for the health of workers and the general public, preventing environmental degradation and ensuring real progress in nuclear safety and security.

The programme has a high potential for becoming a benchmark within the EU for safely managing technological issues in nuclear decommissioning, such as the decommissioning of graphite-moderated reactors.

2. OBJECTIVES

The programme aims to **continue providing targeted assistance Lithuania in managing the radioactive safety challenges of the decommissioning** of the Ignalina nuclear power plant.

The programme aims also at **disseminating knowledge** to all Member States on the decommissioning process.

3. IMPLEMENTATION & SIMPLIFICATION

The programme is indirectly managed through a national agency of the Member State. Keeping the decommissioning of these reactors under a dedicated spending programme

implies that implementation continues seamlessly through the established implementing body. **Higher national co-financing** in the programme will be required in the new programming period in line with the Court of Auditor Special Report 22/2016 - *EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead.*

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

Synergies with **Cohesion Policy** will be strengthened in the next programming period. In particular, the policy will have the possibility to support the development of the concerned region by creating jobs, promoting sustainable growth and innovation. Similarly, synergies will be explored with **Horizon Europe** in areas such as technology development and testing, as well as training and education.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

Figures in current prices

EUR million

Total envelope for 2021-2027

552



SECURITY

Nuclear Safety and Decommissioning

The aim is to **support to Bulgaria and Slovakia to safely decommission first generation nuclear reactors** and, separately, to finance the **decommissioning process and final disposal of waste of the Commission's own nuclear installations.**

1. **EUROPEAN ADDED VALUE**

As a condition for their accession to the EU, Bulgaria and Slovakia took the commitment to close and to subsequently decommission six Soviet-designed first generation nuclear reactors for which an upgrade to Western safety standards was deemed uneconomical. Correspondingly the EU committed itself in the frame of Article 203 of the Euratom Treaty to financially support the decommissioning. The

decommissioning activity is progressing with an end foreseen in 2025 for Bohunice, Slovakia and 2030 for Kozloduy, Bulgaria. It is in the interest of the Union to continue providing financial support for decommissioning, contributing to ensuring the highest level of safety of the operation. Substantial and durable support will be provided for the health of workers and the general public, preventing environmental degradation and ensuring real progress in nuclear safety and security.

Separately, as owner of nuclear facilities, the Commission is obligated to manage its nuclear heritage. The decommissioning process started with the 1999 “Decommissioning and Waste Management Programme”.

These actions have a potential for becoming a benchmark within the EU for safely managing technological issues in nuclear decommissioning and disseminating knowledge to other member states.

2. OBJECTIVES

The aim is to continue **assisting Bulgaria and Slovakia in managing the radioactive safety challenges of the decommissioning process**. Additionally, the **decommissioning of the Commission (Joint Research Centre) sites** will help explore and develop options for anticipated transfer of decommissioning and waste management liabilities to the JRC host Member States. The initiative aims also at **disseminating knowledge** to Member States with decommissioning programmes.

3. IMPLEMENTATION & SIMPLIFICATION

The management of the programme for Bulgaria and Slovakia is entrusted (indirect management mode) to the European Bank for Reconstruction and Development and a national agency in Slovakia. Keeping the decommissioning of these reactors under a dedicated spending programme implies that implementation continues seamlessly through the established implementing bodies.

The decommissioning of the Commission's sites is managed directly by the Joint Research Centre.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The integration of the decommissioning activities in Bulgaria and Slovakia, and of the Commission, will build synergies and additional in-house know-how for the Commission to explore and develop options for the intended transfer of decommissioning and waste management liabilities to the Joint Research Centre host

Member States. Synergies with **Cohesion Policy** will be strengthened in the next programming period. In particular, the policy will have the possibility to support the development of the concerned region by creating jobs, promoting sustainable growth and innovation. Similarly, synergies should be explored with **Horizon Europe** in areas such as technology development and testing, as well as training and education.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|--|--------------------|
| Total envelope for 2021-2027 | 626 |
| of which: | |
| Assistance to Bulgaria | 63 |
| Assistance to Slovakia | 55 |
| Decommissioning of Commission sites | 348 |
| Nuclear safety and nuclear safeguards | 160 |



DEFENCE

European Defence Fund

The new European Defence Fund will incentivise cooperative defence capability development projects and complement national investments in defence.

1. EUROPEAN ADDED VALUE

In today's world, guaranteeing security means dealing with threats that transcend borders. No single country can address them alone. Europe will need to take greater responsibility for protecting its interests, values and the European way of life, in complementarity and in cooperation with the North Atlantic Treaty Organisation. Efforts to fulfil the EU's level of ambition in security and defence (endorsed by the European Council in 2016) will contribute to this objective. To be ready to face tomorrow's threats and to protect its citizens, Europe needs to enhance its strategic autonomy. This requires the development of key technologies in critical areas and strategic capabilities to ensure technological leadership. Cooperation at all levels is the

only way to deliver on the expectations of EU citizens. By encouraging cooperation, the European Union can help maximise the output and quality of Member States' investment in defence. The European Defence Fund will create EU added value by contributing to the development of joint research and capabilities in the area of defence to increase the efficiency of public expenditure and to develop the operational autonomy of the Union.

While the Union cannot substitute Member States' efforts in defence, it can, within the limits of the Treaties, complement and leverage their collaboration in developing the defence products and technologies needed to address common security challenges. This would reduce duplications and allow for a more efficient use of taxpayers' money. The lack of cooperation between Member States in the field of defence and security is estimated to cost annually between EUR 25 billion and EUR 100 billion. More than 80% of public procurement and more than 90% of Research and Technology are run on a national basis. The European levels of investment in the development and the procurement of future capabilities are insufficient and lag behind the investments of other countries. There is also a wide difference between the defence spending levels among the Member States. In addition, the costs of defence equipment are rising faster than defence national budgets. A high degree of fragmentation remains, with, for example, 178 different weapon systems in Europe compared to 30 in the United States. The low level of coordination of the national defence planning leads to inefficient use of taxpayers' money and unnecessary duplication. In addition, weak cooperation, fragmentation and systematic duplication of resources affect the deployability and hamper the EU's ability to act and protect.

Benefits of greater cooperation in defence include:

- ▶ Increasing efficiency of national defence spending by achieving more value for money;
- ▶ Reducing duplication of defence systems;
- ▶ Better interoperability of defence equipment allowing for joint defence operations;
- ▶ Minimising fragmentation and boosting competitiveness and innovation of the EU defence industry.

2. OBJECTIVES

The European Defence Fund is a defence capability development instrument to foster EU strategic autonomy. It aims to trigger cooperative programmes that would not happen without a Union contribution and to provide the necessary incentives for

boosting cooperation at each stage of the industrial cycle, including research and development activities. The objectives of the European Defence Fund are:

- a) fostering the **competitiveness and innovation capacity of the defence industry** throughout the Union by **supporting collaborative actions at each stage of the industrial cycle**, notably from the research phase to the development phase;
- b) supporting and leveraging **cross-border cooperation between undertakings** throughout the Union, including small and medium-sized enterprises, in the research and development of technologies or products in line with defence capability priorities commonly agreed by Member States within the EU through the Capability Development Plan, also taking into account the Coordinated Annual Review on Defence;
- c) supporting **collaborative projects throughout the entire cycle of research and development** oriented at defence products and technologies.

Particular attention will be given to encouraging collaborative projects with important cross-border participation of small and medium-sized enterprises. This will ensure that the Fund is open to beneficiaries from all Member States, regardless of their size and location in the Union.

3. IMPLEMENTATION & SIMPLIFICATION

The design and the structure of the European Defence Fund takes into account the experience with the Preparatory Action on Defence Research and the proposal for a Regulation establishing a European Defence Industrial Development Programme.

A coherent European Defence Fund covering the research and development activities allows for an integrated, mutually reinforcing support, i.e. avoiding the risk that the results of the research are lost in the absence of continued support for developing and testing the technology further. This will strengthen the uptake of products and technologies which are supported through EU funding. In addition, an integrated Fund will enable new forms of support where relevant, including through pre-commercial public procurement. This will allow identifying the best value for money solutions that the market can deliver to address Europe's defence research and development needs.

Different intensity of support is foreseen depending on the development stage. The funding rates for defence research will be normally higher than the funding rates for the development of prototypes. This will allow for appropriate incentives to support the launch of collaborative projects while taking into account the important role of Member States funding in this area. The rules for participation in the European Defence Fund will take into account the specificity of the defence sector, notably as regards the strict

need for security of information, the management of Intellectual Property Rights results, etc.

Particular attention will be placed on ensuring appropriate participation of small businesses, through increased funding rates to encourage cross-border participation of small and medium-sized enterprises in collaborative projects.

The programme will be implemented by the Commission in direct management so as to maximise effectiveness and efficiency in the delivery. Member States will be closely involved in the implementation of the defence programme.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Complementarity and synergies with **Horizon Europe** will be ensured, so that results under defence research also benefit civil research and vice-versa. This will help avoiding possible unnecessary duplication.

The European Defence Fund will be coordinated with other activities of the Commission and the High Representative in the area of defence. This will include measures to ensure appropriate synergies with the Commission's work on the Financial Toolbox which aims to further facilitate joint development and acquisition of defence capabilities through the standardisation of EU and national financing mechanisms ranging from pooling to joint ownership. Those synergies will include appropriate assistance to Member States in launching joint research and development projects.

Close links are ensured between the European Defence Fund and the projects implemented within the framework of the Permanent Structured Cooperation in defence (PESCO). Once assessed eligible, a 'PESCO bonus', in the form of an increased financing rate, will be granted to projects development in the framework of the Permanent Structured Cooperation. It will require early pre-consultation with the Commission to help assess possible eligibility of Permanent Structured Cooperation projects under the Fund.

The Fund will take into account the EU Capability Development Plan and the Coordinated Annual Review on Defence of the European Defence Agency, notably as regards the implementation of priorities and the identification of new cooperative opportunities. Implementation will be done considering relevant activities of North Atlantic Treaty Organisation and other partners.

The Fund also complements defence activities implemented through the **European Peace Facility**, an off-budget instrument proposed outside the Multiannual Financial Framework.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 13 000 |
| of which: | |
| Research | 4 100 |
| Capability development | 8 900 |



CRISIS RESPONSE

rescEU - Union Civil Protection Mechanism

rescEU, the Union Civil Protection Mechanism, supports EU Member States to **prevent, prepare and to respond to natural and man-made disasters**, in particular through rapid, well-coordinated mutual assistance amongst them.

1. EUROPEAN ADDED VALUE

In recent years, the EU has faced a number of disasters which caused the loss of lives and other damaging consequences for citizens, businesses, communities and the environment. 304 persons were killed by natural disasters in 2017 alone. Close to EUR 10 billion in damages were recorded in Europe in 2016. Such disasters have become so complex that they can overwhelm the response capacities of individual countries and their capacities of mutual assistance.

This is where the European added value of the Union Civil Protection Mechanism, and in particular of the new initiative – rescEU – lies. It allows the EU Member States and the other Participating States (Iceland, Norway, Serbia, Montenegro, the former Yugoslav Republic of Macedonia and Turkey) to pool their civil protection capabilities and expertise so as to react more swiftly and effectively to protect populations in case of disasters.

In addition to the national capacities offered by the Member States, the Union can rely on a dedicated reserve of capacities, such as aerial firefighting means, high capacity pumps for floods, search and rescue capacities and emergency medical teams. These rescEU capacities will be deployed when national capacities are overwhelmed and mutual assistance among Member States is not sufficient to allow for an effective response. Developing last-resort capacities at EU level allows for greater economies of scale. Member States need to be prepared for "normal" disaster risk situations within their respective territory, but can request assistance from other Member States and, ultimately, rescEU capacities for extreme and unforeseeable situations, or for disasters requiring rare and costly capacities.

2. OBJECTIVES

The Union Civil Protection Mechanism is at the disposal of Member States and third countries when a disaster strikes. It offers cooperation and coordination between the EU and the Member States to prepare for and respond to natural and man-made disasters.

To achieve this overall objective, rescEU focuses on three main goals:

- ▶ **It enhances the EU's collective capacity to respond to disasters.** rescEU offers a dedicated reserve of civil protection capabilities – partly operated by the EU, partly through the European Civil Protection Pool, a voluntary pool of assets pre-committed by the Member States for use in EU operations;
- ▶ It improves **prevention and preparedness to respond to disasters** at both national and EU level, through effective assessment of the risks faced by Member States, feeding into both advice and recommendations for investments when needed;
- ▶ It facilitates the rapid, efficient and coordinated response to disasters, with the Commission's **Emergency Response Coordination Centre** at the heart. This 24/7 coordination hub monitors the support requests from participating states and alerts all the others accordingly.

3. IMPLEMENTATION & SIMPLIFICATION

A significant effort was made to keep administrative procedures to the minimum in order to reduce the burden and delays in the deployment of assistance. In the spirit of administrative simplification, the use of unit sums, lump sums and flat rates will be encouraged where possible, and any activation of the Mechanism will be limited in time to speed up the deployment of assistance.

In particular:

- ▶ The various **different co-financing rates existing in the current mechanism are streamlined** at 75% for all activities related to the European Civil Protection Pool. These activities include in particular the operations of capacities used within the Participating States, the upgrade of capacities from purely national to international use (as is the case now) and their repair. This goes much beyond transportation costs as in the current Mechanism and significantly increases the support provided to Member States for disaster preparedness and response.
- ▶ The new approach proposed by the Commission aims to fully cover the costs related to the availability and deployability of rescEU capacities.
- ▶ In addition, the reinforced Union Civil Protection Mechanism will support the activities of the Union Civil Protection Knowledge Network – composed of relevant actors and institutions – in the field of training, exercises and knowledge dissemination.

4. **COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES**

Disaster risk management is increasingly integrated in other EU policies and programmes. For example, disaster prevention and management is an important theme under the European Structural and Investment Funds and the European Union Solidarity Fund (to financially support emergency and recovery measures required after severe natural disasters). With rescEU, further and stronger synergies are created between the area of civil protection and other related areas, such as regional, rural, environmental policies, which also have a great importance for disaster risk management. rescEU will only cover extraordinary situations not tackled by emergency funding within other programmes, which for example excludes market-related crises in the agricultural sector.

5. **PROPOSED BUDGET ALLOCATION FOR 2021-2027**

Figures in current prices

EUR million

Total envelope for 2021-2027

1 400



EXTERNAL ACTION

Neighbourhood, Development and International Cooperation

Instrument

The Neighbourhood, Development and International Cooperation Instrument is the programme that allows the EU to **project its interests, policies and values beyond its borders**. It supports the EU partners in their political and economic transformations towards sustainable development, stabilisation, consolidation of democracy, overcoming poverty and, as regards the neighbourhood policy, progressive economic integration into the Union's Single Market and alignment to EU rules and standards for the neighbouring countries that have chosen that path.

1. EUROPEAN ADDED VALUE

Today, the growing interconnectedness of countries and regions has created many new opportunities. At the same time, certain parts of the world are facing increasing challenges and fragility, whether in our neighbourhood or beyond, with cross-border effects and a direct impact on the Union. The past years have shown regional conflicts, terrorism, migratory pressure, unsustainable use of resources and increased protectionism. Individually, Member States would be unable to respond effectively to these global dynamics, but the Union and Member States can together address the challenges and opportunities of a rapidly changing world, and play a key role in reaping the benefits of globalisation, spreading EU values and offering citizens both security and stability. The EU external action programmes and other EU tools are an indispensable part of this.

Article 21 of the Treaty on European Union reflects the principles and objectives that guide the Union's external action, including democracy, the rule of law, human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.

In addition, Article 8 provides that the Union shall develop a special relationship with neighbouring countries, aiming at establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation.

The added value of Union intervention in external action stems from:

- ▶ Its core competences and areas of expertise (e.g. development cooperation, crisis management, conflict prevention, human rights, democracy, environmental protection, trade, public diplomacy and resilience building);
- ▶ Its values and its credibility as a peace actor and defender of democracy and human rights and leader in combatting climate change and protecting the environment;
- ▶ Its nature as a supranational entity, its critical mass on the world stage and its influence and reform leverage, stemming from its political and economic weight and experience as a global actor;
- ▶ Its geographic/geopolitical spread (relying notably on the network of EU Delegations and humanitarian aid field offices worldwide) and the amounts of cooperation involved;
- ▶ The scope, coherence and mix of instruments and wide range of tools at its disposal for implementation on the ground.

With its leadership position in humanitarian and development cooperation, the EU is in a unique position to project its values, promote the Sustainable Development Goals throughout the world and respond to global challenges, including migration, conflict, instability, security, poverty, inequality, climate change, environmental degradation and energy security. The new external financing instrument will provide a coherent framework and the financial means for external action that any Member State alone would not be able to provide.

2. OBJECTIVES

The objectives of the instrument are derived both from EU external policies orientations – as defined for example in the Global Strategy "Shared vision, Common Action: a Stronger Europe", the EU commitment to the 2030 Agenda for Sustainable Development, the New European Consensus on Development "Our World, our Dignity, our Future", and the review of European Neighbourhood Policy – and from the cross-cutting Multiannual Financial Framework objectives of flexibility, coherence and synergies, simplification and focus on performance. EU strategic objectives – both geographic and thematic – are reflected through ring-fencing.

The EU needs to have tools at its disposal capable of delivering actions that respond to the objectives of the external action of the Union, in particular actions with the following general objectives:

- ▶ To support **democracy, rule of law, good governance, human rights and the principles of international law**;
- ▶ To contribute to **security** and preserve **peace**, supporting the prevention and effective response to **crisis and conflicts**; to support **stabilisation** and **resilience**;
- ▶ To foster the **sustainable economic, social and environmental development of developing countries**, with the primary aim of eradicating poverty;
- ▶ To support the **special relationship with neighbouring countries**, aiming to establish an area of shared prosperity, socio economic development and good neighbourliness;
- ▶ To address **irregular migration** and fight its root causes while creating conditions for the better organisation of legal migration and well-managed mobility;
- ▶ To support **EU diplomacy** in all its aspects, **promoting EU internal policies in their international dimension** and supporting **trade policy** and **economic cooperation**;
- ▶ To enhance partnerships, promoting policy dialogue and collective responses to challenges of global concern, including environment and climate change.

3. IMPLEMENTATION & SIMPLIFICATION

To provide greater coherence, economies of scale, synergies and simpler processes, the Commission proposes a strategic simplification of the financing instruments in EU external action for the period 2021-2027, including the **integration of the European Development Fund in the EU budget**, in order to further enhance effectiveness and efficiency.

Several instruments and modalities under the Multiannual Financial Framework 2014-2020 will be **streamlined and integrated into the Neighbourhood, Development and International Cooperation Instrument**, with world-wide coverage: the European Development Fund, the Development Cooperation Instrument, the European Neighbourhood Instrument, the European Instrument for Democracy and Human Rights, the Partnership Instrument, the Instrument contributing to Stability and Peace, the Instrument for Nuclear Safety Cooperation and the Common Implementing Regulation. The Instrument for Pre-Accession Assistance along with Humanitarian

Aid, the Common Foreign and Security Policy, and the Cooperation with Overseas Countries and Territories, including Greenland, will remain self-standing instruments due to their specific nature or different legal basis.

The Neighbourhood, Development and International Cooperation Instrument will also streamline the current external action financial guarantees architecture which includes the European Fund for Sustainable Development as an essential pillar of the European External Investment Plan, the provisioning for Macro-Financial Assistance, the External Lending Mandate, the Guarantee Fund for External Action, the Africa, Caribbean and Pacific Investment Facility and will provide for a possible capital contribution to European or international development banks or financial institutions that would deliver on EU objectives in the external action.

The integration of the European Development Fund into the Multiannual Financial Framework will lead to an increase of the overall expenditure ceiling while preserving existing flexibilities. The Common Implementing Regulation, which applied to six financing instruments under the Multiannual Financial Framework 2014-2020 is integrated into the new Neighbourhood, Development and International Cooperation Instrument. These provisions will continue to apply to the Instrument for Pre-Accession Assistance.

The Neighbourhood, Development and International Cooperation Instrument will have four main components and will cover cooperation with third countries through geographic and thematic approaches and preserving flexibility in responsiveness and options to act according to the Union's priorities (in particular the Neighbourhood, Africa, human rights, stability and migration).

The core of the Neighbourhood, Development and International Cooperation Instrument will be its geographic pillar, with identified geographic areas supplemented by a thematic pillar and a rapid-response pillar.

- ▶ The **geographic pillar** ("engaging with partners") will be able to cover programmed cooperation with neighbourhood and all other third countries (except those covered by the Pre-Accession Assistance instrument and Overseas Countries and Territories cooperation programme, including Greenland). It will consist of several geographic envelopes with minimum amounts earmarked for each, including a specific prominent window for the Neighbourhood with additional specific features such as support focused on regulatory approximation, incentive-based relation and cross border cooperation. The earmarking of funds to the geographic programmes will reflect the EU's strategic priorities, recognising the EU's major strategic objectives, notably in the Neighbourhood and Africa. This pillar will also cover **Erasmus+** external dimension.

- ▶ The **thematic pillar** (“reaching common goals”) will support actions addressing issues that cannot be included in geographic envelopes because they are global in nature and/or are political flagship initiatives, for example on Human Rights and Democracy, Civil Society Organisations, Peace and Stability, Migration, other themes linked to the implementation of the Sustainable Development Goals at global level, including economic diplomacy and trade.
- ▶ The **rapid-response pillar** (with worldwide scope) for quick response capacity for crisis management and conflict prevention, resilience building, including linking relief, rehabilitation and development, and short term foreign policy reaction will have world- and scope-wide coverage (political, security, economic). This pillar will notably succeed the European Development Fund shock absorption mechanism, Article 3 of the Instrument contributing to Stability and Peace, including the Capacity Building for Security and Development part, and elements of the Partnership Instrument. Rules and procedures for this pillar will make sure that they retain their fast, flexible and responsive nature.

In addition, the instrument will include an **emerging challenges and priorities cushion** of unallocated funds, which will allow for flexibility in response to existing or emerging urgent priorities. An important objective of this cushion would be to address migratory pressures, but it would leave flexibility also to address unforeseen events, stability needs and new international initiatives and priorities. This unallocated amount will be mobilised on the basis of criteria defined in the Regulation.

Important cross-cutting priorities such as environment and climate action and gender will be mainstreamed throughout the instrument. **Migration** is a priority which will be identified and addressed across the instrument and in the different pillars, including by drawing on unallocated funds.

The current flexibilities of the European Development Fund are integrated into the Neighbourhood, Development and International Cooperation Instrument, notably the possibility to carry over un-committed amounts and the possibility to re-use de-committed amounts.

In terms of methods of implementation, all forms of support will be included in the Regulation, which will be delivered through direct or indirect management modes - depending on the specific programme that is implemented and the country or region concerned. In line with the principles set out in the European Consensus for Development, the most concessional forms of assistance, notably grants, will be targeted where the need is greatest, especially Least Developed Countries (whatever their geographical location) and countries in situations of fragility and conflict.

Cooperation with more advanced developing countries will be based mainly on innovative forms of engagement, given the lesser needs for concessional forms of assistance. The specificities of the European Neighbourhood Instrument notably in terms of the “more for more” approach and differentiation will be maintained. The external strand of Erasmus+ will continue being an important tool for external action and one pillar of a number of priorities pursued with partner countries in strengthening education systems, fighting unemployment and preventing radicalisation. The delivery mechanism and rules of the external strand of Erasmus+ will be considerably simplified.

The Regulation will also support the EU's **new external investment architecture** which will allow for better delivery of EU policy objectives in external action, whilst at the same time allowing the crowding-in of additional resources from the private sector to address development challenges. It will provision for financial guarantees to promote investments in partner countries, with an emphasis on Africa, the Neighbourhood, possibly the Western Balkans. A particular attention will also be given to countries experiencing fragility, conflict, and on other regions with critical infrastructure and connectivity needs. Blending operations and the budgetary guarantees will be financed from the geographic pillar. The proposed toolbox includes the possibility of an EU budgetary guarantee and/or capital contribution to European or international development banks or financial institutions, provided that they meet certain conditions, relating to added-value, risk-taking capacity and are steered by EU policy objectives.

The provisioning for **Macro-Financial Assistance** will also be covered by the Neighbourhood, Development and International Cooperation Instrument, but the specific operations will continue to be activated on the basis of a separate ad-hoc decisions as needed.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Under the external action and pre-accession assistance clusters of the Multiannual Financial Framework there will be a strong complementarity between the different instruments as well as synergies with the relevant internal policies and internal policy instruments in areas such as migration, security and climate. Complementarity will also be ensured between the instruments financed by the EU budget and the proposed **European Peace Facility** (to be set outside the Multiannual Financial Framework), to ensure a strong coherent EU action.

Fewer instruments in the external policy heading will reduce the artificial boundaries experienced in the previous set of geographic and thematic instruments. It will allow ensuring that the EU has the right policy mix in each country/region without risking

overlaps and/or inconsistent approaches. This will also streamline programme management procedures and in that way increase efficiency and transparency.

Interaction and complementarity with **Humanitarian Aid** will take place through geographic programmes as well as through the pillar dealing with resilience and linking relief, rehabilitation and development, in order to ensure a seamless continuum of activities.

The revised Union Civil Protection Mechanism **rescEU** also covers action outside the EU and will provide for complementarities in the areas of prevention, preparedness and response to natural disasters.

While avoiding gaps and overlaps, synergies and coordination will be ensured between the security activities of the Neighbourhood, Development and International Cooperation instrument with the **Common Foreign and Security Policy** as well as the future **European Peace Facility**.

Despite the **Instrument for Pre-Accession Assistance**'s distinct objectives from the remaining external actions instruments, it pursues complementary objectives in supporting human rights and fundamental values as well as in security support. Synergies will also exist at the level of the thematic windows of the instrument in financing global actions.

Cooperation with Overseas Countries and Territories, including Greenland will show synergies, as they will be in particular associated to the actions carried out under the Neighbourhood, Development and International Cooperation instrument geographic and thematic component where the action to be implemented is of a global, trans-regional or regional nature.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 89 500 |



EXTERNAL ACTION

Humanitarian Aid

The EU Humanitarian aid programme provides **emergency, life-saving assistance to people hit by man-made or natural disasters**, particularly the most vulnerable.

1. EUROPEAN ADDED VALUE

The EU is recognised as a leading player in humanitarian assistance, both in terms of its ability to provide rapid and flexible assistance across a wide range of crises, and in virtue of its influence in shaping the global humanitarian policy agenda. Because of the financial weight (with the EU and the Member States combined being the world's largest humanitarian donor) and world-wide scope of its humanitarian actions, the EU is also able to encourage other humanitarian donors to implement effective and principled humanitarian aid strategies. A key comparative advantage of humanitarian aid stems from the fact that it is often the only EU instrument able to intervene in acute conflict/crisis situations. Thanks to its flexibility, humanitarian aid has also made a significant difference on the ground in many of the countries touched by the global refugee and migration crisis.

In a context of insufficient funding to address ever-growing global needs, the EU is also able to fill gaps in global humanitarian aid by addressing needs in areas which are difficult to access and by providing response not only to the biggest and most visible humanitarian crises, but also to forgotten crises (which receive no or insufficient international aid, political and media attention). Moreover, Member States often consider the EU as a donor to provide assistance in crises where they are not able to intervene in a national capacity.

Member States also benefit from the EU's "humanitarian diplomacy" which results in more effective provision of humanitarian aid. Another key element of EU added value for Member States lies in the strong operational knowledge and technical expertise of the EU's unique network of humanitarian field offices, spread over almost 40 countries.

2. OBJECTIVES

In line with the Humanitarian Aid Regulation, which continues to apply, the EU's humanitarian assistance goes directly to people affected by disaster or conflict, irrespective of their race, ethnic group, religion, sex, age, nationality or political affiliation, and must not be guided by, or subject to, political considerations. The EU acts on the basis of the international humanitarian principles of humanity, neutrality, impartiality and independence. The main objectives are to:

- ▶ Provide **needs-based delivery of EU assistance to save and preserve life, prevent and alleviate human suffering and safeguard the integrity and dignity of populations affected by natural disasters or man-made crises**, also including protracted crises;
- ▶ Build the **resilience and capacity to recover of vulnerable or disaster-affected communities**, in complementarity with other EU instruments.

These objectives contribute to the overall objectives, principles and actions of the Union's external action as defined in Article 21 of the Treaty on European Union.

3. IMPLEMENTATION & SIMPLIFICATION

The Commission implements EU humanitarian aid operations through over 200 partner organisations, including United Nations agencies, other International Organisations including the Red Cross and Red Crescent movement, and non-governmental organisations. The Commission has developed a permanent network of international and local humanitarian field experts working in crisis zones around the globe. The EU has been playing a leading role in the development of new policy approaches and innovative funding modalities (e.g. cash-based assistance).

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Even if the work of the EU on **rescEU** primarily serves action inside the EU, it also complements humanitarian assistance outside the EU by real-time monitoring through the Emergency Response Coordination Centre and by the deployment of immediate support in emergencies in third countries through expert teams and rescue equipment provided by Member States and other participating countries. Furthermore, it benefits from additional flexibility from the **Emergency Aid Reserve**, a special instrument to respond to emergencies and catastrophes inside and outside the Union in cases where funding under dedicated programmes proves insufficient.

In many crisis situations, there is a strong emphasis on complementarity between humanitarian aid and development assistance with a view to ensuring a smooth transition from relief to sustainable development supported by the Neighbourhood, Development and **International Cooperation Instrument**.

The EU Humanitarian Aid Instrument has the potential to leverage Member States' funding through the use of External Assigned Revenues. This can contribute to enhancing complementarity with national resources.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 11 000 |



EXTERNAL ACTION

Common Foreign & Security Policy

The European Union's Common Foreign and Security Policy enables the EU to speak with one voice in Common Foreign and Security Policy issues. It contributes to the preservation of peace, the prevention of conflicts and strengthening international security. It is one of the main instruments used to implement the **Global Strategy for the European Union's Foreign and Security Policy** and underpins the EU's role as a global actor. The external action instruments should serve the EU objectives and project EU values globally.

The Treaty on European Union (Title V: General provisions on the Union's external action and specific provisions on the Common Foreign and Security Policy) strengthened this policy area by creating the post of **EU High Representative for Foreign Affairs & Security Policy**, and the European External Action Service. The Common Foreign and Security Policy helps to safeguard the Union's values and principles, and interests. Article 21 of the Treaty on European Union reflects the principles and objectives that guide the Union's external action, including democracy, the rule of law, human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.

1. EUROPEAN ADDED VALUE

The Common Foreign and Security Policy provides the ability to act as an external actor on behalf and alongside the Member States. By providing for joint action, the EU adds value beyond the activities of individual Member States by reaching a critical mass when responding to global challenges. Given the EU's impartial position to deliver external action on behalf of and with Member States, Common Foreign and Security Policy operations enjoy enhanced credibility and trust in the countries they operate. The demographic and economic weight of the European Union and ability to make joint foreign policy decisions strengthens its arm.

While individual activities of Member States clearly contribute to achieving the objectives of the EU's common Foreign and Security Policy, the EU's Common Foreign and Security Policy achieves a critical mass to respond to global challenges. Joint ownership on the EU side combined with influence and reform leverage of a global actor, and a strong political signal of a sound EU mechanism support security and stability needs of partner countries,

With its leadership position in humanitarian and development cooperation, the EU is in a unique position to project its values and respond to global challenges, including conflict, instability, and security threats/threats to global security. In synergy with other external action instruments, the Common Foreign and Security Policy contributes to a coherent framework and the financial means for external action that any Member States alone would not be able to afford.

2. OBJECTIVES

Given the political priorities and global challenges, Common Foreign and Security Policy actions will remain a fundamental pillar of the Global Strategy (or its successor) post-2020, in support of three strategic priorities: 1) responding to external conflicts and crises, 2) building the capacity of partners, and 3) protecting the Union and its citizens. For the Common Foreign and Security Policy to be effective, the EU needs to be ready to react rapidly and with determination in response to emerging threats to its strategic interests.

3. IMPLEMENTATION & SIMPLIFICATION

The overall impact and achievements triggered by the Common Foreign and Security Policy are of much greater value than the sum of its individual actions. In particular in the field of Common Security and Defence Policy missions, the scope and reach of the agreed actions goes beyond what a single Member State can do. Common Security and Defence Policy missions benefit in particular from the multinational EU nature both in terms of image – EU credibility as a peace actor- and of accessing a larger pool of

human resources and expertise, including from interested third countries participating in EU-led actions. Common Security and Defence Policy actions have concretely contributed to the policy implementation, by 1) providing capacity building, support and advice through the Common Security and Defence Policy civilian and military training missions, 2) promoting peace and stability as well as promoting and advancing the values of the EU by means of special representatives, and 3) promoting multilateral responses to the security threats, including combating the proliferation of weapons of mass destruction and the illicit spread and trafficking of other conventional weapons. .

In addition, via its Common Foreign and Security Policy operations, the EU provides funding for the European Security and Defence College and for the operation of the Kosovo specialist chambers. The Common Foreign and Security Policy can also be used for action on the basis of Article 28 of the Treaty on European Union.

The need for rapid and determined response implicates that many Common Foreign and Security Policy actions cannot be programmed in advance and the budget needs to include a sufficient margin each year in order to enable a rapid response in crisis situations.

The Common Foreign and Security Policy budget is managed and implemented by the Foreign Policy Instruments service of the Commission.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Under the external action and pre-accession assistance clusters of the Multiannual Financial Framework a strong complementarity will be ensured between the different instruments. Interaction and synergies will also be sought between the instruments financed by the EU budget (notably the Neighbourhood, Development **and International Cooperation Instrument**, the **Instrument for Pre-Accession Assistance**, **Humanitarian Aid**, the revised **Union Civil Protection Mechanism instrument – rescEU**, and the proposed **European Peace Facility** (to be set outside the Multiannual Financial Framework because of limitations to finance defence activities set by the Treaty on European Union), to ensure a strong and coherent EU external action.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

| |
|-------------------------------------|
| Total envelope for 2021-2027 |
|-------------------------------------|

| |
|--------------|
| 3 000 |
|--------------|



EXTERNAL ACTION

Cooperation with Overseas Countries and Territories (including Greenland)

The programme aims to support and **strengthen the economic, political and cultural ties between the European Union and the 13 Overseas Countries and Territories** linked to Denmark, France and the Netherlands. The modalities of the programme will take account of the particular needs and challenges of the Overseas Countries and Territories overall, and the specific situation of Greenland.

1. EUROPEAN ADDED VALUE

The Overseas Countries and Territories which spread from the Poles to the Tropics are associated with the EU. They play an important role as outposts of the Union in the areas where they are located, but do not, however, form part of the EU territory or of the EU single market.

The purpose of the Association of the Overseas Countries and Territories is to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Union as a whole.

Support to the Overseas Countries and Territories makes them less dependent on the EU and its Member States and promotes cooperation between them, their regional, European and international partners. It allows projecting EU values, culture, laws and economic partnerships across the globe.

2. OBJECTIVES

The objective of the support to Overseas Countries and Territories is to **preserve the close and lasting links between the partners, supporting their sustainable development and enhancing their competitiveness and economic resilience.**

3. IMPLEMENTATION & SIMPLIFICATION

The support to Overseas Countries and Territories, other than Greenland, used to be channelled through the European Development Fund. The programmes are directly

implemented by the European Commission, mainly in the form of direct budgetary support but also in some cases by grants.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The cooperation with Overseas Countries and Territories is strictly linked to and coordinated with the national support policies of Denmark, France and the Netherlands. In addition, synergies will be exploited with separate European development programmes for the EU's outermost regions and the Neighbourhood, Development and International Cooperation Instrument.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 500 |



PRE-ACCESSION ASSISTANCE

Instrument for Pre-Accession Assistance

The Instrument for Pre-accession Assistance **supports candidate countries and potential candidates on their path to fulfilling the accession criteria**. It is positioned in the context of the Western Balkans Strategy and reflects the developments in the relations with Turkey.

1. EUROPEAN ADDED VALUE

Supporting the enlargement of the EU is by its very nature a task best pursued at EU level. Granting pre-accession assistance under one single instrument on the basis of a single set of criteria is more efficient than granting assistance from multiple sources – including the national budgets of the Member States – following different procedures and priorities. In addition, the EU's political influence and leverage allows it to engage

national authorities with greater authority and legal certainty than individual Member States. The Instrument complements the enlargement policy of the Union by supporting political and economic reforms, including as regards EU values and the respect for the rule of law and the proper functioning of institutions ensuring sound financial management in candidate countries/potential candidates and is used proactively to advance negotiations with beneficiary governments towards fulfilling the Copenhagen criteria, as well as the conditionality of the Stabilisation and Association Agreements.

The Instrument for Pre-accession Assistance contributes to the broader European objectives of ensuring stability, security and prosperity in the immediate neighbourhood of the Union. Proximity between Member States and beneficiaries and the corresponding need for coordination also ensures that support given to beneficiaries helps the EU to reach its own objectives in terms of sustainable economic growth, migration, security, energy supply, transport, the environment and climate change.

2. OBJECTIVES

The Instrument for Pre-accession Assistance aims to **support candidate countries and potential candidates in adopting and implementing the political, institutional, legal, administrative, social and economic reforms required to comply with Union values and to progressively align to Union rules, standards, policies and practices with a view to Union membership.**

The instrument will be shaped around the following key priorities: **Rule of Law, fundamental rights and migration** – this will include strengthening **security cooperation, the fight against radicalisation and against organised crime**, as well as supporting an **integrated migration policy including border management; EU policies and acquis; Socio-Economic development; Investments for growth; Reconciliation, good neighbourly relations and Regional and cross-border cooperation.** These objectives follow on from those pursued under the predecessor programme.

3. IMPLEMENTATION & SIMPLIFICATION

Continuity will be ensured with the 2014-2020 instrument. The strong performance-based element will be maintained but simplified in order to make it easier to monitor and report on, and to provide a real incentive to the beneficiaries. A rapid and flexible mobilisation of funds is important as well as the necessary financial means to prepare for future accessions, when appropriate, including to ensure a gradual and seamless transition from pre-accession to Member State to allow the increase of absorption capacity needed to be ready.

All possible types of delivery modes will be included in the Regulation (grants, procurement, prizes, contributions to EU Trust Funds, budget support, financial instruments, and budgetary guarantees). They will be implemented through direct, indirect and shared management depending on the type of programme and partner country.

With regard to the investment architecture, the financial instruments currently implemented in the region will remain active in view of the good results obtained so far.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIE: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The programme will seek complementarities with a full range of Union programmes, including the internal policy programmes (synergies with the security, migration and energy policies, and the **Neighbourhood, Development and International Cooperation Instrument**, with the investment component, as well as to support the **Erasmus+** external dimension. The beneficiary countries will continue to benefit from thematic programmes, in particular human rights. There will continue to be synergies with **Cohesion Policy** and the **Common Agricultural Policy** in preparing the beneficiary countries to absorb and manage future Union financing.

Coherence needs to be kept between the **InvestEU Fund**, the new single investment tool for the EU internal policies, and the Instrument for Pre-accession Assistance, so that the potential access of pre-accession countries to the new fund is ensured. The necessary increase in the investment needs will be mostly served by the **European Fund for Sustainable Development+**, which will be integrated in the Neighbourhood, Development and International Cooperation Instrument. This will allow for strong economies of scale, while including the possibility of a scaling-up of operations in the Western Balkans, as needed.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

Figures in current prices

EUR million

Total envelope for 2021-2027

14 500

INSTRUMENTS OUTSIDE THE CEILINGS OF THE MULTIANNUAL FINANCIAL FRAMEWORK



SPECIAL INSTRUMENTS

Emergency Aid Reserve

The Emergency Aid Reserve is an **instrument providing additional funds into a number of sectorial programmes when a crisis occurs**, both within and outside the EU.

1. EUROPEAN ADDED VALUE

Responsiveness of the EU budget is increasingly needed under unstable geopolitical and domestic frame conditions which occasion non-programmable spending needs. While a number of programmes covering both within and outside the EU foresee specific provisions to cover emergency measures, available funds can be quickly exhausted and reinforcements become necessary, sometimes at short notice. For example, resources available for emergency assistance under the Asylum, Migration and Integration Fund and the Internal Security Fund were not sufficient to meet all demands by Member States in the face of the migration and security crises which started in 2015. Similarly the Food and Feed programme proved to be largely insufficient to meet demands of Member States affected by the Avian Influenza crisis in 2016 and 2017. Consequently, funds from other programmes had to be redeployed and several flexibility mechanisms had to be mobilized to fill up the gaps.

Large-scale disasters, be they natural or man-made, can overwhelm the capacities of a single Member State and have a clear transnational component. Such disasters are becoming more frequent and intense due to changing climatological conditions or new emerging risks, and their economic, environmental and social consequences are on the rise. This calls for increased EU responsiveness, along with the following principles:

- ▶ An agile legal framework that allows the EU budget to intervene in a wide range of crises situations, even in areas not traditionally seen as high risk. Relevant spending programmes should be equipped with appropriate emergency response provisions triggering EU action as soon as an emergency event takes place.

- ▶ Sufficient funding available when needed: major crises cannot be forecast and a budgetary reserve from which additional resources can be drawn at short notice is vital.

2. OBJECTIVES

Among the Special Instruments that can be mobilized over and above the ceilings of the Multiannual Financial Framework, the Emergency Aid Reserve is specifically devised to bring **reinforcements in case of crises**. It constitutes a provisional annual amount on top of the ceilings, which can be added to the budget of a specific programme within a few weeks to cover **unforeseen events**.

3. IMPLEMENTATION & SIMPLIFICATION

The **scope of the Emergency Aid Reserve will be extended to operations inside the EU**, thus making use of existing procedures and optimising budget allocation. This will provide a common mechanism to financially reinforce EU actions in response to all kinds of crises (natural disasters, environmental crises, humanitarian emergencies, health epidemics, etc.) and in all geographic locations.

To avoid competition and ensure a fair approach towards emergency needs, a temporary ceiling of 50% will apply to both internal and external dimensions for the first 9 months of the year. Besides, 25% of the annual ceiling will remain available for the last quarter of the year to ensure that amounts remain available also for cases emerging towards the year-end.

The current mobilisation process of the Emergency Aid reserve is a smooth and well-tried process, its main features will be maintained:

- ▶ As a special instrument designed to address unforeseen events and funding needs, the Reserve will be mobilised over and above the Multiannual Financial Framework ceilings;
- ▶ The Reserve is entered in the budget as a provision; it is mobilised jointly by the European Parliament and the Council via a transfer in accordance with the Financial Regulation;
- ▶ To maximise the Reserve's capacity, unused amounts can be transferred to the following year.

To maximize the EU budget response capacity, there will be common rules for making use of the Reserve across all programmes and budget headings to which it is open. This

implies no earmarking or priority use, for instance, for internal rather than external crises, or for individual policy areas.

In exceptional years, where the full annual amount of the Reserve has been depleted, additional needs could still be covered through other flexibility mechanisms (such as the Flexibility Instrument, the Contingency margin), albeit with a heavier mobilization procedure (i.e. amending budget).

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The Emergency Aid Reserve will address extraordinary situations that cannot be tackled by the emergency funding within specific programmes. For instance, the Reserve is not aimed at addressing the consequences of market related crises affecting the agricultural production or distribution.

The other special instrument, associated with crisis' response is the **EU Solidarity Fund**. It is also limited by an annual maximum amount, but it is very different in nature compared to the Reserve. The support from the Solidarity Fund is provided to a Member State as an expression of EU solidarity in its efforts to deal with the effects of a major natural disaster. It takes the form of a grant, reimbursing some of the costs incurred by the Member State for recovery and reconstruction efforts following a disaster, with no concrete activities managed at EU level and no spending programme implicated.

5. PROPOSED MAXIMUM ANNUAL AMOUNT

Figures in 2018 prices

EUR million

Maximum annual amount

600



SPECIAL INSTRUMENTS

European Union Solidarity Fund

The European Union Solidarity Fund is a solidarity instrument responding, at the request of a Member State or of a country involved in accession negotiations with the Union, to **severe natural disasters** and expressing European solidarity with disaster-stricken regions by alleviating the costs of national intervention.

1. EUROPEAN ADDED VALUE

Solidarity between Member States is one of the founding principles of the Union and the EU Solidarity Fund is a clear demonstration of this principle. It has very high visibility among citizens. As natural disasters are likely to become more frequent and intense due to changing climatological conditions this Special Instrument outside the Multiannual Financial Framework also contributes to mitigating the adverse impact of climate change.

Due to its targeted impact, it complements the intervention of multi-annual programmes which are focused on medium-term investment priorities and can also help overcome the complexity that might result from inter-regional coordination should the disaster affect several regions.

2. OBJECTIVES

The EU Solidarity Fund provides financial contribution to help cover the **costs of emergency and recovery operations** borne by the public budgets of the eligible States. It intervenes by reimbursement to give budgetary support to **restore essential infrastructure**, assist the population by providing **temporary accommodation** and **funding rescue services**, secure **preventive infrastructure** and measures of **protection of cultural heritage** as well as help **cleaning up disaster-stricken areas**, including natural zones.

3. IMPLEMENTATION & SIMPLIFICATION

Due to nature of the interventions, the delivery mechanism of the Fund is simple and focused on results. The **flexibility** allowing the carry-over of unspent amounts from the

preceding year will be preserved while allowing for higher amounts of advance payments.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES/ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The 2014 revision strengthened the link with disaster risk reduction policies and set an incentive for Member States to step up **European Structural and Investment Funds** investments supporting prevention, adaptation to climate change and disaster resilience building.

As the EU Solidarity Fund is intervening ex-post, it is complementary to **resceEU** and other emergency tools which intervene immediately in case of natural or man-made disasters.

5. PROPOSED MAXIMUM ANNUAL AMOUNT

| <i>Figures in 2018 prices</i> | <i>EUR million</i> |
|-------------------------------|--------------------|
| Maximum annual amount | 600 |



SPECIAL INSTRUMENTS

European Globalisation Adjustment Fund

The European Globalisation Adjustment Fund is a solidarity and emergency relief instrument which offers **one-off assistance to dismissed workers in the context of a significant number of unexpected dismissals caused by the adverse effects of economic change.**

1. EUROPEAN ADDED VALUE

Adding up to regular national resilience (unemployment, social) and to structural interventions from the European Social Fund, the European Globalisation Adjustment Fund measures increase the number and variety of services offered, but also their level of intensity.

Due to this targeted impact, it complements the intervention of EU-funded multi-annual programmes which are focused on medium-term priorities and can also help overcome the complexity of inter-service coordination at national/regional level as large-scale collective redundancies may require combined measures.

Finally, the European Globalisation Adjustment Fund also contributes to the direct implementation of some principles of the European Pillar of Social Rights such as training and life-long learning or active support to employment.

2. OBJECTIVES

As from 2021, the European Globalisation Fund will support workers concerned by a wider range of changes leading to massive high-scale redundancies (globalisation, crisis, technological changes, etc.).

To this end, the measures will aim at: (i) providing **tailor-made support to help reintegration into the labour market**, (ii) increasing the emphasis on acquisition of **digital skills** and (iii) **supporting mobility** whenever relevant.

3. IMPLEMENTATION & SIMPLIFICATION

In order to better correspond to its specific feature of an emergency instrument, the mobilisation of the European Globalisation Adjustment Fund will be improved twofold: (i) a **wider scope of interventions** that considers extended intervention criteria (technological change for instance) and (ii) procedural simplifications, such as lighter application process, provision of technical assistance to ease access to funding.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

Co-financing rates will be aligned with **Cohesion Policy** rates.

5. PROPOSED MAXIMUM ANNUAL AMOUNT

| <i>Figures in 2018 prices</i> | <i>EUR million</i> |
|-------------------------------|--------------------|
| Maximum annual amount | 200 |



OFF BUDGET

European Peace Facility

The European Peace Facility aims to finance the common costs of military operations under the Common Security and Defence Policy; contribute to the financing of military peace support operations led by other international actors; and provide support to third States' armed forces to prevent conflicts, build peace and strengthen international security.

1. EUROPEAN ADDED VALUE

The EU is recognised as a credible global actor. This gives it a competitive advantage in terms of conflict prevention and peace-keeping. EU interventions in these areas can take different forms, ranging from providing support to peace-keeping operations by third countries or international organisations (such as under the African Peace Facility), to direct support to partners' capacities, to deploying troops for operations under the Common Foreign and Defence Policy. This ability of the EU to contribute to the prevention of crisis, restoration of peace or public order or stabilisation of countries or regions faced with conflict or disorder is essential. It does not only serve to protect the EU and its citizens, but also to stabilise countries, enable development and prevent massive displacement of persons.

The EU has engaged in or assisted peace support operations, including through the deployment of EU military forces, in a variety of locations - from Africa, to the Middle-East and the Western Balkans. These operations have demonstrated the added-value of a European dimension, allowing participating Member States to pool resources, share costs and show a genuine European engagement on the ground. However, over recent years, the number of security and stability challenges in our neighbourhood and beyond has grown – and so have the demands for peace-keeping.

This calls for an enhanced engagement of the EU to respond to external conflicts and crises, through peace-keeping and conflict management. This is achieved more efficiently and effectively at EU level. Very few Member States have sufficient resources to support or conduct effective military operations on their own and the Member States that do so should not be expected to bear the entire cost of operations which benefit the EU as a whole. Solidarity between Member States and pooling of resources is therefore essential. Moreover, EU-level involvement can facilitate

cooperation with international and regional organisations and countries worldwide through its network of EU delegations. Few Member States can offer this outreach.

2. OBJECTIVES

The objective of the Facility is to enable the EU to do more and to act more swiftly to **prevent conflicts, promote human security, address instability and work towards a safer world, also using military and defence means if required.**

The Treaty on European Union does not allow for Common Foreign and Security Policy operations that have military or defence implications to be financed under the EU budget. The primary objective of the Facility will therefore be the pursuit of the EU foreign and security policy activities with military and/or defence implications which cannot be funded under the EU budget. Except when the Council decides otherwise, actions under the Common Foreign and Security Policy that can be financed under the EU budget must continue to be financed under the EU budget. The implementation of the Facility will require full consistency and coherence with the EU budget, to be ensured at each and every level of the Facility's functioning.

The Facility is a new single extra-budgetary instrument. It will combine support which, under the Multiannual Financial Framework 2014-2020, is partly covered by the **Africa Peace Facility** (financed from the extra-budgetary European Development Fund), and the **Athena mechanism**. Military Common Security and Defence Policy operations are funded outside of the EU budget primarily by the participating Member States, while a limited percentage of common costs are financed through the Athena mechanism.

These existing funding mechanisms, while of clear added value, have up to now only partially addressed the expectations of partners and the need to ensure the EU's external stability in light of unprecedented external challenges. The Facility therefore seeks to:

1. enhance the financing of **military operations under the Common Security and Defence Policy**, which should be made more flexible and efficient;
2. widen the scope of the EU's **support to peace-supporting military operations** led by third countries and international organisations worldwide, and build the military capacities of third countries and international organisations to prevent conflicts, build peace and strengthen international security;
3. facilitate the financing of **other operational actions under the Common Foreign and Security Policy having military or defence implications** when so decided by the Council.

The Facility will be established through a Council Decision under the Common Foreign and Security Policy. As an instrument under the Common Foreign and Security Policy, its implementation will be ensured by the High Representative. With regard to the

financial implementation of the Facility in line with the Financial Regulation, the High Representative will be assisted by the Commission's Service for Foreign Policy Instruments.

3. IMPLEMENTATION & SIMPLIFICATION

The Facility will be financed through yearly contributions by Member States based on a Gross National Income distribution key. It will improve flexibility and responsiveness to crisis, drawing on lessons learned from the current instruments and mechanisms. It will ensure that EU funding is available on a permanent basis, while allowing for a rapid response to crises and other urgent requests. It will also facilitate the provision of integrated packages with military training provided by EU military training missions, military equipment and support. The European Peace Facility is designed in an efficient, flexible manner to take into account the different nature of its activities. The important role of partners will be clearly reflected.

4. COMPLEMENTARITIES & SYNERGIES WITH OTHER POLICIES: ALIGNMENT OF EU WITH NATIONAL AND REGIONAL RESOURCES

The Facility will be governed by the principles of coherence and complementarity, ensuring full consistency and synergy with relevant external action instruments and measures under the EU budget, in particular the Common Foreign and Security Policy, capacity building for security and development and other forms of security-related assistance and action under the Security and Peace objectives of the EU's neighbourhood and development policies. Flexibility and responsiveness will ensure that support is available in a timely manner and caters to external military needs as agreed. Simplification and streamlining of funding sources and structures will also be ensured. The Facility will be subject to a strong political steer, to ensure its effectiveness and coherence with the EU's overall external policy approach.

The Facility reflects the need to find expression for the EU's role in defence but is clearly distinct from the European Defence Fund, which aims to supplement and amplify national investments in defence research and industrial development. Nevertheless, the European Defence Fund has the potential to provide a significant boost to the EU's strategic autonomy and the competitiveness of Europe's defence industry, thus indirectly allowing the EU to provide more efficient support to military peace-keeping operations abroad.

5. PROPOSED BUDGET ALLOCATION FOR 2021-2027

The European Peace Facility is an "extra-budgetary" instrument.

| <i>Figures in current prices</i> | <i>EUR million</i> |
|-------------------------------------|--------------------|
| Total envelope for 2021-2027 | 10 500 |

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

On the establishment of a European Investment Stabilisation Function

COM(2018) 387 final 31.05.2018

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

Reasons for and objectives of the proposal

In his 2017 State of the Union address and accompanying Letter of Intent, President Juncker announced the Commission's intention to make concrete proposals for the creation of a dedicated euro area budget line within the EU budget, providing amongst others for a stabilisation function. The idea was further detailed in the Commission's Communication on new budgetary instruments for a stable euro area within the Union framework, which is part of a package of initiatives to deepen Europe's Economic and Monetary Union¹. The package builds, in particular, on the Five Presidents' Report on completing Europe's Economic and Monetary Union of 22 June 2015² and on the Commission's Reflection Paper on the deepening of the Economic and Monetary Union of 31 May 2017.³

Deepening the Economic and Monetary Union (EMU) and modernising EU public finances are key strands in the debate on the future of Europe initiated by the Commission's White Paper of 1 March 2017.⁴ This was further highlighted in the Reflection Paper on the future of EU finances of 28 June 2017.⁵ At the current juncture, there is a window of opportunity to launch concrete forward-looking proposals on both the future of the EMU and on how future EU public finances can help to respond to identified challenges.

¹ COM(2017)822 final, 6 December 2018.

² 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.

³ COM(2017) 358, 28 June 2017.

⁴ COM(2017) 2025, 1 March 2017.

⁵ COM(2017) 358, 28 June 2017.

European value added is at the heart of the debate on European public finances. EU resources should be used to finance European public goods. Such goods benefit the EU as a whole and cannot be ensured efficiently by any single Member State alone. In line with the principles of subsidiarity and proportionality, the EU should take action when it offers better value for every taxpayer's euro compared to action taken at national, regional or local level alone.

Deepening the EMU is good for both the euro area and the EU as a whole. A more integrated and performing euro area would bring further stability and prosperity to all in the EU while ensuring that Europe's economic voice is strongly heard on the global stage. The stabilisation function, one of the new budgetary instruments presented in the Commission's Communication seeks to tackle some of the specific needs of euro area Member States and those on their way to joining the euro which are participating in the exchange rate mechanism referred to in Article 140(1) TFEU, while keeping in mind their broader needs and aspirations as EU Member States. In doing so, it also seeks to maximise synergies between existing and future instruments, as they will be presented by the Commission in May 2018 as part of its proposals for the post-2020 EU Multiannual Financial Framework.

The deepening of the Economic and Monetary Union requires determined actions from individual Member States as well as adequate support from the EU budgetary and policy coordination instruments. This creation of a stabilisation functions, is one of the ideas on how better to use the EU budget as a way to strengthen the resilience of our interdependent economies, and thus contribute to economic and social cohesion. Progress made by both euro and non-euro countries in implementing reforms and converging upwards will be beneficial to all.

Under the conditions set out in the Financial Regulation, the EU is empowered to borrow and lend in order to provide financial assistance. This is notably the case for the management for loans provided under the Balance of Payments Facility to support non-euro Member States in the event of difficulties in their balance of payments. It is also the case for loans provided under the European Financial Stabilisation Mechanism. Since the funds raised and the corresponding loans are back-to-back operations, there is no direct impact on the EU budget as long as recipient Member States honour their obligations.

While the EU budget has always promoted upward social and economic convergence and the lending firepower available at EU level was increased in recent years to respond to extreme circumstances, macroeconomic stabilisation has not yet been an explicit objective of the EU budget so far. The experience of the financial crisis years has also shown that the architecture and scope of EU public finances do not yet fully match the specific needs of the Economic and Monetary Union – neither for the euro area Member States, nor for Member States on their way to joining the euro area.

To support euro area Member States to respond better to rapidly changing economic circumstances and stabilise their economy in the event of large asymmetric shocks, a stabilisation function should be created. As a result of the unification of monetary policy in a single currency area, macroeconomic policy instruments in the hands of participating Member States are no longer the same. While each country differs and the size and structure of the economy matter in terms of likelihood of being exposed to shocks, the crisis highlighted the limitations of means available to individual euro area Member States to absorb the impact of large asymmetric shocks, with some losing access to the markets to finance themselves. In several instances, this resulted in protracted recessions and negative spill-overs to other Member States.

With this in mind, and provided Member States agree, there are ways to develop budgetary instruments at EU level that can contribute to the stability of the euro area and also benefit the EU as a whole. To ensure their success and effectiveness, and to maximise their efficiency for the taxpayer, these instruments must be conceived in full synergy with other budgetary instruments existing in the broader Union framework. In addition, in the future, the European Stability Mechanism (ESM) or its legal successor in the form of a European Monetary Fund could take up a role in support of macro-economic stabilisation if desired by the euro area Member States which are its shareholders.

The proposed Regulation on the establishment of the European Investment Stabilisation Function (EISF) is one of the initiatives translating the call to establish a stabilisation function which would help soften the effects of asymmetric shocks and prevent the risk of negative spill-overs in the Commission's Communication on "New budgetary instruments for a stable euro area within the Union framework"⁶. The stabilisation function is conceived for euro area Member States and should be open to non-euro area Member States which have entered the exchange rate mechanism II following a positive decision to this end by ERM II members.

The initiative takes the form of a proposal for a Regulation of the European Parliament and the Council, under Article 175(3) of the Treaty on the Functioning of the European Union (TFEU). Article 175(3) TFEU allows for the creation of an instrument supporting eligible public investment in Member States that are confronted with a large asymmetric shock with a view to strengthen cohesion. This action is necessary outside the Structural Funds which do not provide for a specific instrument to support macro-economic stabilisation by preserving public investment in case of large asymmetric shocks and is without prejudice to measures decided upon within the framework of other Union policies.

Member States have an interest in achieving and maintaining high quality in their public investment management systems and practices. The proposal is therefore

⁶ COM(2017)822 final, 6 December 2018.

complemented by an Annex which determines the methodology and criteria for the assessment of such public investment management systems and practices with a view to identify where they have to be strengthened to increase of the impact of public investment and potential support under the proposed instrument.

Under today's proposal, the Commission is empowered to grant financial assistance to Member States which are faced with a large asymmetric shock, by contracting borrowings on the financial markets or with financial actors, with a view to on-lend such proceeds in support of the Member State concerned in maintaining eligible public investment. In addition, an interest rate subsidy covering the interest rate costs incurred on the loan by the beneficiary Member State is foreseen.

The decision of the Commission to provide support under the instrument is conditioned upon the fulfilment by the Member State concerned of strict eligibility criteria based on compliance with decisions and recommendations under the fiscal and macro-economic surveillance framework. It is recalled that Member States should pursue sound fiscal policies and build up fiscal buffers in prosperous economic times. The criteria for activating the support under the instrument are based on a double unemployment trigger. The latter is chosen because strong increases in national unemployment rates are a relevant indicator of the impact of a large asymmetric shock in a specific Member State.

Moreover, an obligation to use the support received for investment in policy objectives under the Common Provisions Regulation and to maintain the average level of public investment of the five last years, ensures that the aim of the proposed Regulation, namely ensuring that cohesion is not imperilled by the large asymmetric shock, could be reached.

The proposal also includes formulas for determining automatically the amount of loan support and the interest rate subsidy. As regards the loan component, the amount is determined by taking into account the maximum level of eligible public investment that can be supported and the severity of the large asymmetric shock.

However, a limited and circumscribed discretion for the Commission to increase the amount of the loan up to the maximum level of public eligible investment is foreseen. The latter is also determined on the basis of a formula which reflects the ratio of eligible public investment to GDP in the EU over a period of five years before the Member State concerned requested the support and the GDP of the Member State concerned over the same period.

The proposed Regulation is accompanied by a draft intergovernmental agreement for Member States to agree among themselves on the transfer of national contributions calculated on the basis of the share of monetary income allocated to their national

central banks to the Stabilisation Support Fund established under the Regulation. The main purpose of this Fund, to be endowed with national contributions, is to finance the interest rate subsidies Member States are entitled to. Such interest rate subsidies cover 100 percent of the interest cost incurred on the loans.

The detailed eligibility and activation criteria as well as the formulas for calculating loan support and interest rate subsidies allow for a swift and lean decision-making procedure by the Commission.

It is not excluded that the European Stability Mechanism (ESM) or its legal successor would autonomously decide at a certain point in the future to provide support in parallel to the instrument established under the proposed Regulation. In such a case, the Commission shall strive to ensure that such assistance is provided in a manner that is consistent with the proposed Regulation.

To cater for such a potential parallel interaction between any future ESM assistance and this instrument, the proposal makes it possible for the Commission to adopt delegated acts in a limited number of fields. In particular, a delegated act is foreseen to regulate the exchange of information as regards the important elements of the loan under this scheme. Furthermore, the possibility to adopt delegated acts is provided for to supplement or amend the proposed Regulation by determining rules of complementarity between ESM assistance and amounts of EISF support calculated on the basis of the proposed instrument and to cater for granting interest rate subsidies for interest cost incurred on ESM assistance.

It is also important to recall that the EISF instrument established under the proposed Regulation should be seen as a first step in the development over time of a voluntary insurance mechanism for the purpose of macro-economic stabilisation. The latter mechanism would be based on voluntary contributions by euro area Member States and could have a borrowing capacity. A review of the proposed Regulation is foreseen five years after the entry into force of the Regulation to assess and address possible issues in this respect.

This proposal provides for a date of application as of 1 January 2021 and is presented for a Union of 27 Member States, in line with the notification by the United Kingdom of its intention to withdraw from the European Union and Euratom based on Article 50 of the Treaty on European Union received by the European Council on 29 March 2017.

Consistency with existing policy provisions in the policy area

The EISF instrument under the proposed Regulation is consistent with other instruments under the cohesion policy. The instrument complements programmes supported by the Union under the European Regional Development Fund, the Cohesion

fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development, which have in recent years accounted for more than half of total public investment, contributing strongly to the process of strengthening the economic and social catching-up of regions and countries across the EU. In this respect it is noted that a greater link between the priorities of the European Semester and the programmes supported by the Union under the European Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development has also been established, by introducing ex-ante and macroeconomic conditions via the Common Provisions Regulation⁷. Similar conditions determine eligibility for support under the EISF instrument. Moreover, the EISF instrument also complements other EU-level instruments that can specifically help cushion economic shocks at national or local level such as the European Union Solidarity Fund, which provides financial assistance to Member States/regions affected by major disasters; and the European Globalisation Adjustment Fund, which provides support to people losing their jobs as a result of major structural changes in world trade patterns or as a result of a global economic and financial crisis.

Consistency with other Union policies

The instrument under the proposed Regulation is consistent with the rules for economic policy coordination, including the Stability and Growth Pact. Eligibility under the EISF instrument is premised on compliance with decisions and recommendations under the fiscal and macro-economic surveillance framework. The European Semester is the main tool for the coordination of Member States' economic policies at EU level where Member States discuss their economic, social and budgetary priorities and progress is monitored at specific times throughout the year. In the context of the European Semester, the Stability and Growth Pact and the Macroeconomic Imbalances Procedure serve to ensure sound public finances and to prevent risks of imbalances. Moreover, by making best use of the flexibility built into the existing rules of the Stability and Growth Pact, a strengthening of the link between investment, structural reforms and fiscal responsibility has taken place, while taking better account of the cyclical economic conditions faced by Member States.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

Legal basis

The legal basis for this proposal is Article 175(3) TFEU. To use that Article, three conditions must be fulfilled which are all met.

⁷ Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013.

The first condition is that specific actions must contribute to the strengthening of economic, social and territorial cohesion. The proposed Regulation sets out a lean framework allowing to provide financial assistance to euro area Member States and non-euro area Member States participating in the exchange rate mechanism (ERM II) in support of eligible public investment in the form of loans and interest rate subsidies to cushion a large asymmetric shock to strengthen cohesion. This instrument is a complementary tool which helps beneficiary Member States preserving growth-friendly public investment in case of macroeconomic instability. This in turns helps easing the economic adjustment in the euro area Member State or Member States concerned and helps returning them to a sustainable growth path rather than deepening and lengthening the recession which negatively impacts their economic and social cohesion. The instrument should be activated in the event of a large asymmetric shock in a Member State, or several Member States, when the limits of other mechanisms and national policies materialise, and be subject to strict eligibility criteria based on the Union's fiscal and macroeconomic surveillance framework. Moreover, to be effective, support under the instrument should be channelled to support eligible public investment in support of themes under the ESI Funds. Addressing the effects of a large asymmetric shock through the instruments by supporting the maintenance of the level of public investment thus contributes to the strengthening of economic and social cohesion.

The second is that the action proves necessary outside the Structural Funds. Neither the Structural Funds cater for the purpose of macroeconomic stabilisation in case of a large asymmetric shock by preserving public investment in Member States nor any other specific instrument. The necessity of such an instrument is based on factual elements because structural reforms, automatic fiscal stabilisers, discretionary fiscal policy measures as well as the single monetary policy of the Eurosystem cannot fully mitigate large macro-economic shocks.

Thirdly, the proposal is without prejudice to the measures decided upon within the framework of other Union policies. In particular, the eligibility for any support under the instrument is explicitly based on the premise of compliance with decisions and recommendations provided for in the Union's fiscal and macro-economic surveillance framework pursuant to Title VIII of Part III of the TFEU.

A measure based on Article 175(3) TFEU which is intended to strengthen economic, social and territorial cohesion may be designed in such a manner that only a subset of Member States fulfil the necessary conditions of eligibility for the support, where the limitation rests on an objective reason. The promotion of economic, social and territorial cohesion and the establishment of an economic and monetary union are both key objectives under Article 3 TEU. The currency union, by the nature of its current architecture, is not equipped with the possibility to mitigate large asymmetric shocks by means of a mechanism allowing effectively ensuring the maintenance of the Member States' level of public investment. The lack of monetary policy and exchange rate adjustment channels at national level limits the tools available to address asymmetric

shocks in euro area Member States while placing any response to address such a shock on remaining national instruments of economic policy, namely structural reforms and fiscal policy, but also more heavily on the single monetary policy. Although non-euro area Member States remain responsible for their national monetary and exchange rate policy, those that will adopt the euro in a foreseeable future and participate in the exchange rate mechanism (ERM II) as part of fulfilling their obligations regarding the achievement of the economic and monetary union are de facto already limited in their exchange rate and monetary policies.

Subsidiarity (for non-exclusive competence)

The economic stability of the economic and monetary union (EMU) and the Member States which have adopted the euro have a Union wide dimension. Euro area Member States are economically highly interconnected. It should be avoided that economic shocks and significant economic downturns result into deeper and broader situations of stress negatively impacting economic and social cohesion. However, due to the architecture of the EMU with a centralised single monetary policy but a decentralised fiscal policy at national level, euro area Member States are insufficiently capable to absorb large asymmetric shocks in isolation. There is a need to reinforce the availability of tools when the EMU is confronted with critical problems whenever large economic disruptions arise in individual Member States. Although non-euro area Member States remain responsible for their national monetary and exchange rate policy, those that will adopt the euro in a foreseeable future and participate in the exchange rate mechanism (ERM II) as part of fulfilling their obligations regarding the achievement of the economic and monetary union are de facto also already limited in their exchange rate and monetary policies. The financial and subsequent economic crisis in the euro area has evidenced strong limits to the functioning of automatic fiscal stabilisers and discretionary fiscal policy measures at national level, even in Member States with low levels of public debt and seemingly sound public finances. This has resulted in a pro-cyclical pattern for fiscal policies, which has been detrimental for the quality of public finances and in particular for public investment. The sequence of events also shows that too much weight may be put on the single monetary policy to provide for stabilisation in severe economic circumstances. These observations point to the necessity to establish a common instrument at Union level to absorb such shocks with a view to avoid widening differences in macro-economic performance between euro area Member States and also non-euro area Member States participating in the exchange rate mechanism (ERM II) imperilling economic and social cohesion.

The objective of this proposed Regulation cannot be sufficiently achieved by the Member States individually and can therefore, by reason of the scale of the action, be better achieved at Union level in accordance with Article 5(3) TEU.

Proportionality

The proposal aims to support public investment with a view to strengthen cohesion in Member States which are confronted with a large asymmetric shock. It sets out a streamlined framework for the provision of financial assistance in the form of loans and an interest rate subsidy. The instrument is a complementary tool next to existing Union instruments for financing jobs, growth and investment, national fiscal policies but also financial assistance for tackling crisis times like the EFSM and the ESM.

The decision-making procedure allows for a lean and swift mobilisation and disbursement of support by the Commission following the fulfilment of clearly defined eligibility and activation criteria as well as a criterion determining the public investment that should be supported.

At the same time the proposal does not go beyond what is necessary to achieve the objective of addressing a large asymmetric shock by supporting public investment. Any support under the proposed instrument is subject to strict eligibility criteria based on compliance with decisions and recommendations under the Union's fiscal and macro-economic surveillance framework and clear well-defined activation criteria based on a double employment trigger. Moreover, a beneficiary Member State has an obligation to use the assistance received for eligible public investment in support of the policy objectives of the Common Provisions Regulation. A control and corrective mechanism is foreseen. The amount of loans and interest rate subsidies is determined on the basis of a formula which takes due account of a maximum level of eligible public investment that can be supported and the severity of the large asymmetric shock. Moreover, with a view to ensure that as many Member States as possible could qualify for loan support under the instrument, a ceiling which is function of the remaining available means in the EU budget is set. Interest rate subsidies cover the interest cost incurred by Member States on the loans received under the instrument. Finally, with a view to increase the impact of public investment and potential support under the scheme, a process to enhance the quality of Member State's public investment systems and practices is foreseen.

Choice of the instrument

This act takes the form of a Regulation because the act creates a new instrument contributing to macro-economic stabilisation and has to be binding in its entirety and directly applicable in all Member States.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

Collection and use of expertise

The assessment of the proposed mechanism mostly relied on internal expertise. To assess the potential activity of the stabilisation function or the insurance mechanism, simulations were run based on past data (1985 to 2017). This approach is in line with the standards of the literature on the topic (Carnot et al. 2017; Arnold et al. 2018; Claveres and Stráský, 2018). The stabilisation impact of both the stabilisation function and the insurance mechanism is assessed through simulations of a macroeconomic model (QUEST developed by the Commission and often mobilised to assess the impact of policy reforms). Results are in line with a similar exercise conducted by the IMF (Arnold et al., 2018). More generally, relevant economic and policy oriented literature on the rationale for a stabilisation function was duly taken into account. Ongoing discussions at Union level as well.

Impact assessment

The proposal is supported by an Impact Assessment. On 27 April 2018, the Regulatory Scrutiny Board has issued a positive opinion with reservations on it. *[inclusion of hyperlink to opinion of RSB necessary]* The issues raised by the Regulatory Scrutiny Board were addressed in the revised version of the Impact Assessment Staff Working Document *[inclusion of hyperlink to opinion of RSB necessary]*. The description of the main policy option and the interaction with other instruments were further elaborated, including the composition and funding arrangements. The conclusion on the preferred option is now presented in more detail. A specific annex in the Impact Assessment Staff Working Document further details the changes made following the Regulatory Scrutiny Board's opinion.

The impact assessment examined three policy options for a stabilisation function, besides option 1, the status quo:

Option 2 corresponds to a borrowing and lending scheme, focussed on public investment. A central agent, i.e. the European Union would provide loans together with limited grants to Member States affected by large shocks in order to maintain public investment activity. It mostly corresponds to the Commission proposal as regards the European Investment Stabilisation Function.

Option 3 is an insurance mechanism. Regular contributions, in particular in normal and good economic times, or an own resource would be accumulated in a fund. When a Member State is affected by a large shock, it would benefit from support in form of

pay-outs/grants. A limited borrowing capacity would likely be needed to ensure credible and continuous operation.

Option 4 is a dedicated euro area budget. A common budget would not primarily target economic stabilisation, but rather the provision of European public goods. Still, reliance on cyclical revenues (e.g. corporate income tax) and countercyclical spending (e.g. unemployment benefits) would contribute to macroeconomic stabilisation via automatic stabilisers at the EU level. In addition, one could foresee discretionary elements, which could further foster stabilisation properties.

A European Investment Stabilisation Function (option 2) would contribute to the cohesion objective by offering financing support in the event of a large asymmetric shock affecting a Member State. This support would target public investments in priority sectors and be subject to economic triggering and eligibility conditions. This provision of support will provide a strong incentive to protect key public investments and thereby preserve at an appropriate level expenditures which are essential for the future growth of the economy. As such the scheme would foster outcomes in sharp contrast to the past crisis in some countries where public investment was sizeably cut. The macroeconomic stabilisation impact in this option is limited by the fact that support takes the form of a loan. Confronted with a large shock, the concerned Member State would still face a trade-off between supporting activity via deficit spending or controlling the increase in its public debt. This trade-off would nevertheless be mitigated as the Member State would be given access to cheaper financing than on the market. Moreover, the provision of EU financing may exert a strong signalling effect to market participants, which can act as a catalyst for avoiding the loss of market access and a full-blown financial adjustment programme. This option is consistent with a requirement for no permanent transfers, in the sense that loans are by nature temporary support and the Member State concerned is legally required to pay it back. This condition is particularly important. The view of stakeholders remains divided at this juncture on the need and form of a stabilisation function, especially in the light of worries concerning cross-country neutrality. Option 2 may thus be politically more feasible, at least in the near future.

An insurance mechanism (option 3) would offer significant pay-outs in the event of a large asymmetric shock affecting a Member State, subject to economic triggering and eligibility conditions. These 'insurance pay-outs' would significantly reduce the short-term trade off faced by the concerned Member States between supporting activity and controlling the rise in their debts and deficits. The pay-outs would therefore complement the national automatic stabilisers in adverse circumstances. They would facilitate the conduct of a smoother and more counter-cyclical fiscal policy throughout the cycle, which would also be beneficial for the quality of national public finances and the avoidance of booms and busts in public investments. Depending on its parameterisation, that option can offer a powerful demand stabilisation impact, even for a limited amount of contributions. Option 3 is however relatively challenging to

reconcile with the objective of cross-country neutrality, as some Member States could benefit from pay-outs more often or more than others, for example because their economies feature more volatile cycles. Some design features could be important to improve on the objective of country neutrality, such as higher contributions in good times (which would ensure that volatile economies contribute more and would accelerate the constitution of buffers), and a form of experience rating (contributions modulated as a function of past usage). However, the support of stakeholders for this option appears mixed at this stage, as some may see it as entailing too many risks and going beyond a proportionate response to the challenges at hand.

A euro area budget (option 4) would contribute to the stabilisation of large shocks through automatic fluctuations with the cycle of the revenues and/or expenditures of that budget. The effectiveness of that mechanism depends on the cyclical sensitivity of the composition of the budget and on its size. The implications of option 4 would go somewhat beyond that of providing a stabilisation function, as a full budget implies that allocative competences on the revenues and on the expenditure sides are shifted from the national to the European level, in addition to the current EU budget. The setting up of such a budget would therefore require strong political will and consensus. Further reflections and discussions would be needed to assess its content and raise its political acceptability.

It should be noted that the different policy options are not mutually exclusive and can be combined. At this stage, a European Investment Stabilisation Function (option 2) is the preferred option. It would bring an important contribution to the objectives lined out in section 4 of the Impact Assessment Report. As such it has been retained by the Commission as part of its proposal. An insurance mechanism (option 3) can offer very effective stabilisation properties and may be consistent with country neutrality if well-designed, but further reflections and discussions are needed to assess its viability and raise its political acceptability. An insurance mechanism would significantly strengthen the EMU architecture and thus be highly valuable. While the Commission is not making a formal proposal at this stage, an insurance mechanism should be considered as part of the stabilisation function as a package, topping up and complementing option 2. Such a package would create a consistent ensemble enabling significant stabilisation. Option 4 can offer some stabilisation properties, the extent of which greatly depends on its size and composition, but further reflections and discussions are needed to assess its content and raise its political acceptability.

The impact of an investment stabilisation scheme (option 2) and an insurance mechanism (option 3) would be primarily of macroeconomic nature, along the lines discussed above. In addition, option 2, the investment stabilisation instrument, would improve the composition of public finances by protecting public investment activity. As such it partly captures a dimension of maintenance/upgrading of skills and entails thus some social benefit. In option 3, the insurance mechanism, the environmental and social impact would be fairly indirect and difficult to assess. In option 4, the euro area

budget, the environmental and social impact would likely be positive, but the definition of the option is not detailed enough to allow for an in-depth assessment.

4. BUDGETARY IMPLICATIONS

The proposal could have budgetary implications. The loans which the Commission could grant under this proposed instrument to Member States are a function of a fixed ceiling of EUR 30bn. As such loans constitute contingent liabilities for the EU budget in case a Member State would default on a loan repayment granted under the scheme.

The interest rate subsidy would be financed by a Stabilisation Support Fund endowed with annual national contributions based on the share of each euro area Member State's national central bank in the monetary income of the Eurosystem. The same benchmark would be used for non-euro area Member States participating in the exchange rate mechanism (ERM II). As such these national contributions constitute externally assigned revenue and do not have a bearing on the EU budget.

5. OTHER ELEMENTS

Implementation plans and monitoring, evaluation and reporting arrangements

The act provides for a reporting and review of its application every five years. To this end, the Commission should present an evaluation report that assesses, among others, the effectiveness of the Regulation as well as its contributions to the conduct of the economic policies of euro Member States in such a way as to strengthen cohesion in the Union, to the achievement of the Union's strategy for growth and jobs, and to public investment in euro area Member States benefitting from support under the act. The report shall also examine the appropriateness of developing an insurance mechanism serving the purpose of macro-economic stabilisation. Where deemed appropriate, the report shall be accompanied by proposed amendments to this act. The European Parliament, Council and Eurogroup will receive the report.

Evaluations will be carried out in line with paragraphs 22 and 23 of the Interinstitutional Agreement of 13 April 2016⁸, where the three institutions confirmed that evaluations of existing legislation and policy should provide the basis for impact assessments of options for further action. The evaluations will assess the programme's effects on the ground based on the programme indicators/targets and a detailed analysis of the degree to which the programme can be deemed relevant, effective, efficient, provides enough EU added value and is coherent with other EU policies. They will include lessons learnt to identify any lacks/problems or any potential to further improve the actions or their results and to help maximise their exploitation/impact.

⁸ Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making of 13 April 2016; OJ L 123, 12.5.2016, p. 1–14.

Detailed explanation of the specific provisions of the proposal

Part I of the proposed Regulation (Articles 1 and 2) provides for the establishment of the European Investment Stabilisation Function (EISF) as a financial assistance instrument under Article [220] of the revised Financial Regulation in support of public investment for Member States being faced with a large asymmetric shock serving the goal of strengthening cohesion. Furthermore, it indicates the forms which such financial assistance would take, namely loans and interest rate subsidies. Moreover, this part also emphasizes that the Regulation should apply to euro area Member States as well as to non-euro area Member States which participate in the exchange rate mechanism (ERM II). This part also provides for the most important definitions that are used throughout the act.

Part II of the proposed Regulation (Articles 3 to 5) contains the criteria which would need to be fulfilled by a Member State in order to benefit from support under the EISF. A distinction should be made between two sets of criteria.

Firstly, the proposed act contains eligibility criteria based on compliance with decisions and recommendations under the Union's fiscal framework provided for in Articles 126(8) and 126(11) of the TFEU and Regulation (EU) No 1466/97 as well as under the macro-economic surveillance framework established by Regulation (EU) No 1176/2011. It should also be determined that in case a euro area Member States is under a macro-economic adjustment programme it would not benefit from support under this scheme but that any financing needs in support of public investment would be taken care off under the programme. The same system is envisaged for non-euro area Member States within the scope of the proposed act which benefit from balance of payments support. Finally, in case Member States would agree to conclude an intergovernmental agreement for financing the interest rate subsidy, payment of annual contributions should constitute an eligibility criterion before a Member State would be able to benefit from an interest rate subsidy under the scheme.

Secondly, activation criteria should be foreseen to cater for a timely and effective activation of EISF support. Such activation should be determined by a double unemployment trigger which is based on both the national unemployment rate compared to its past average and the change in unemployment compared to a certain threshold in the last year. Firstly, the choice for the activation criteria based on unemployment rates is considered for several reasons. The unemployment rate serves as an excellent indicator of the business cycle. Moreover, the effects of shocks on public finances tend to lag the growth cycle and actually more or less match the unemployment cycle. In addition, the lag reflecting the use of the unemployment rate would not undermine the utility of the stabilisation purpose of the instrument because initially Member States would need to take recourse to their automatic stabilisers and policies. Secondly, making use of a double activation trigger would ensure with a greater degree of assurance that the Member State concerned is confronted with a large

asymmetric shock with a temporary and country-specific element. The double activation trigger would also allow for support being targeted at times of sizeable economic worsening. The double trigger would target situations where unemployment is rising.

This Part also provides for an obligation by Member States in receipt of assistance under this proposed Regulation to invest the support in eligible public investment, i.e. gross fixed capital formation by the general government in support of policy objectives identified in the Common Provisions Regulation and social investment (education and training) and also to maintain the level of public investment in general compared to the average public investment over the last five years. As regards the second element, the Commission should have some discretion in its assessment to cater for situations where public investment developed in an unsustainable manner in a Member State. A corrective mechanism should be foreseen to avoid ineligible expenditure and Union bearing liability for ineligible loans. That appears necessary to protect the Union's financial interest. In case a Member State would not have respected this criterion, the Commission should be able to request the full or partial repayment of the loan and decide that upon repayment of the loan the Member State concerned would not be able to benefit from an interest rate subsidy. The result of this control should also be made public.

Part III of the proposed Regulation (Articles 6 to 8) contains the procedure for granting swiftly EISF support. Following a request, the Commission should verify the fulfilment of the eligibility and activation criteria and also decide on the terms of the support that takes the form of a loan. Elements such as the amount, average maturity, pricing, availability period of support should be determined. The beneficiary Member State should also be entitled to an interest rate subsidy upon repayment of the loan or when interest payments are due. Moreover this part of the proposed act also determines the forms of EISF support.

Part IV of the proposed Regulation (Articles 7 to 10) determines firstly the financial envelope for the instrument. As regards loans, the Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State concerned. Such borrowings should be limited to a fixed ceiling of EUR 30bn. As regards interest rate subsidies, they should serve to offset the interest costs that Member States incur on the loan. The Commission should be able to use the Stabilisation Support Fund to finance the latter. This part also sets out the formulas which the Commission should use for determining the amounts of the loan and interest subsidy under the EISF instrument.

As regards the loan component of this instrument a distinction should be made between the formula for determining the maximum level of eligible public investment (I_s) that can be supported and the formula for calculating the amount of the support (S) in the form of loan. Both formulas interact with each other. The maximum level of eligible

public investment (*I_s*) that could be supported by the EISF should be automatically set on the basis of a formula which captures the ratio of eligible public investment to GDP in the EU over a period of five years before the request for support by a Member State and the GDP of the Member State concerned over the same period. This maximum amount should also be scaled towards the available means, namely the fixed ceiling determined in the Regulation. The maximum amount of loan support should also be automatically set on the basis of a formula which takes into account the maximum level of eligible public investment that can be supported and the severity of the large asymmetric shock. The loan should also be scaled in function of the severity of the shock. The amount of the loan could be increased up to the maximum level of eligible public investment (*I_s*) in case the asymmetric shock would be particularly severe. The increase in the quarterly national unemployment rate would serve as an indicator to this end. Finally, the loan support should be limited to 30 percent of remaining available means under the ceiling set for calibrating loans to the available means in the EU budget in order to ensure that as many Member States as possible could qualify for support under this instrument.

The amount of the interest rate subsidy should be automatically determined as a fixed percentage of the interest costs incurred by the Member State on the loan under this instrument.

This part of the proposed Regulation finally also provides for a potential involvement by the European Stability Mechanism (ESM) or its legal successor in case the latter would autonomously decide in the future to also provide financial assistance in support of public investment to cater for macro-economic stabilisation purposes. To this end, the Commission should strive to ensure that such assistance would be awarded under conditions which are consistent with the ones under this proposed Regulation. An empowerment for the Commission should be foreseen to adopt delegated acts to supplement the proposed Regulation as regards the exchange of information on the different elements of the loan and the rules determining complementarity between ESM assistance and support under this instrument calculated on the basis of the formulas for the loan and interest rate subsidy.

Part V of the proposed Regulation (Articles 11 to 16) contains the procedural rules for disbursement and implementation of the loan support under this instrument. More specifically, it concerns rules on the disbursement, the borrowing and lending operations, the costs, and the administration of the loans. Finally, rules on control are foreseen.

Part VI of the proposed Regulation (Articles 17 to 19) provides for the establishment of the Stabilisation Support Fund (the Fund) and its use. The Fund should be endowed with contributions by Member States in accordance with an intergovernmental agreement which determines the method for calculating them and the rules regarding their transfer. For euro area Member States, national contributions should be calculated

as a percentage of the monetary income allocated to the euro area Member States' national central banks. For the purpose of calculating the contributions, the ECB should every year by 30 April at the latest communicate to the Commission the amount of monetary income for each national central bank. For non-euro area Member States within the scope of application of the proposed act, a Eurosystem monetary income should serve as a calculation base for its national contribution. A specific key should be applied. Provided such an intergovernmental agreement would be concluded, the receipt of an interest rate subsidy should be conditional upon Member States having paid their annual contribution.

The Fund should only be used to pay the interest rate subsidy. Granting such a subsidy should be conditional upon the availability of resources in the Fund and a system of deferral of payment should be put in place in case resources would be insufficient. The Commission should administer the Fund on the basis of a prudent and safe investment strategy.

Part VII of the proposed act (Article 20) provides for an assessment by the Commission of the quality public investment systems and practices in Member States. Such an assessment should be foreseen as an accompanying measure in order to increase the impact of public investment and EISF support. The detailed methodology is provided for in an annex to the proposed Regulation and is based on state-of-the-art practices employed by the IMF and OECD.

Part VIII of the proposed Regulation (Articles 21 to 23) provides for rules on the exercise of delegated powers, reporting and review and the entry into force of the proposed Regulation. As regards the regular reporting, the Commission should *inter alia* examine the appropriateness of developing an insurance mechanism for macro-economic stabilisation purposes and whether to include social investment in education and training in the definition of eligible public investment as soon as reliable figures are available.

**PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT
AND OF THE COUNCIL**

on the establishment of a European Investment Stabilisation Function

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 175(3) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank⁹,

Having regard to the opinion of the European Economic and Social Committee¹⁰,

Having regard to the opinion of the Committee of the Regions¹¹,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The promotion of economic, social and territorial cohesion and the establishment of an economic and monetary union (EMU) are key objectives under the Treaties.
- (2) Strengthening economic cohesion amongst Member States whose currency is the euro would contribute to the stability of the monetary union and to the harmonious development of the Union as a whole.

⁹ OJ C , , p . .

¹⁰ OJ C , , p . .

¹¹ OJ C , , p . .

- (3) Member States should conduct their economic policies and should coordinate them in such a way as to attain the objective of strengthening economic, social, and territorial cohesion.
- (4) The unprecedented financial crisis and economic downturn that hit the world and the euro area has shown that in the euro area available instruments such as the single monetary policy, automatic fiscal stabilisers and discretionary fiscal policy measures at national level are insufficient to absorb large asymmetric shocks.
- (5) In order to facilitate macroeconomic adjustment and cushion large asymmetric shocks in the current institutional set-up, Member States whose currency is the euro and other Member States that participate in the exchange rate mechanism (ERM II) have to rely more heavily on remaining instruments of economic policy, such as automatic fiscal stabilisers and other discretionary fiscal measures, making the adjustment more difficult overall. The sequence of the crisis in euro area also suggests strong reliance on the single monetary policy to provide for macro-economic stabilisation in severe macro-economic circumstances.
- (6) The financial crisis has resulted in a pro-cyclical pattern for fiscal policies, which has been detrimental to the quality of public finances and in particular for public investment. In turn, that shortcoming has contributed to widespread differences in macroeconomic performance between Member States, imperilling cohesion.
- (7) Additional instruments are therefore necessary to avoid in the future that large asymmetric shocks result into deeper and broader situations of stress and weaken cohesion.
- (8) In particular, in order to support Member States whose currency is the euro to respond better to rapidly changing economic circumstances and stabilise their economy by preserving public investment in the event of large asymmetric shocks, a European Investment Stabilisation Function (EISF) should be established.
- (9) EISF should not only benefit Member States whose currency is the euro but also other Member States that participate in the exchange rate mechanism (ERM II).
- (10) EISF should be a Union instrument which complements national fiscal policies. It should be recalled that Member States should pursue sound fiscal policies and build up fiscal buffers in favourable economic times.

- (11) At Union level, the European Semester of economic policy coordination is the framework to identify national reform priorities and monitor their implementation. Member States develop their own national multiannual investment strategies in support of those reform priorities. Those strategies should be presented alongside the yearly National Reform Programmes as a way to outline and coordinate priority investment projects to be supported by national and/or Union funding. They should also serve to use Union funding in a coherent manner and to maximise the added value of the financial support to be received notably from the programmes supported by the Union under the European Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development, the EISF and InvestEU, where relevant.
- (12) The European Stability Mechanism (ESM) or its legal successor could provide further support in addition to support under EISF.
- (13) EISF support should be given in case one or several Member States whose currency is the euro or other Member States that participate in the exchange rate mechanism (ERM II) are confronted with a large asymmetric shock. Changes in unemployment rates are highly correlated with business cycle fluctuations in such Member States. Strong increases in national unemployment rates above their long-term averages are a clear indicator of a large shock in a specific Member State. Asymmetric shocks affect one or several Member States significantly more strongly than the average of Member States.
- (14) The activation of EISF support should therefore be determined by a double activation trigger based on both the level of national unemployment rate compared to its past average and the change in unemployment compared to a certain threshold.
- (15) Strict eligibility criteria based on compliance with decisions and recommendations under the Union's fiscal and economic surveillance framework over a period of two years before the request for EISF support should be fulfilled by the Member State requesting EISF support in order not to diminish the incentive for that Member State to pursue prudent budgetary policies.
- (16) Member States whose currency is the euro which benefit from financial assistance by the ESM, the European Financial Stabilisation Mechanism (EFSM) or the International Monetary Fund (IMF) and which are under a macro-economic adjustment programme within the meaning of Article 7(2) of

Regulation (EU) No 472/2013 of the European Parliament and of the Council¹² should not benefit from EISF support since their financing needs including for maintaining public investment are addressed via the financial assistance granted.

- (17) Member States with a derogation which benefit from balance of payments support within the meaning of point (a) of Article 3(2) of Council Regulation (EC) No 332/2002¹³ should not benefit from EISF support since their financing needs including for maintaining public investment are addressed via the medium-term financial assistance facility granted.
- (18) EISF support should take the form of loans to the Member States concerned. That instrument would provide them with financing to continue executing public investment.
- (19) In addition to loans, interest rate subsidies should be granted to the Member States concerned to cover the interest costs incurred on such loans, as a specific type of financial assistance under Article 220 of the Financial Regulation. Such an interest rate subsidy would provide additional support in parallel to the loan for Member States undergoing an asymmetric shock and facing tight financing conditions on the financial markets.
- (20) With a view to swiftly provide EISF support, the competence for granting the loans when the eligibility and activation criteria are fulfilled and deciding on granting interest rate subsidies should be entrusted to the Commission.
- (21) Member States should invest the support received under EISF in eligible public investment and also maintain the level of public investment in general compared to the average level of public investment over the five last years in order to ensure that the objective pursued by this Regulation is achieved. In that respect, there is the expectation that Member States should give priority to maintaining eligible investment in programmes supported by the Union under the European Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development..
- (22) To that effect, the Commission should examine whether the Member State concerned has respected those conditions. In case of non-compliance the

¹² Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, (OJ L 140, 27.5.2013, p. 1).

¹³ Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balance of payments (OJ L 53, 23.2.2002, p.1).

Member State concerned should repay part or the entire loan given and should not be entitled to receiving an interest rate subsidy.

- (23) The maximum level of eligible public investment that could be supported by EISF loan for a Member State should be automatically set on the basis of a formula which captures the ratio of public eligible investment to gross domestic product (GDP) in the Union over a period of five years before the Member State concerned requests a loan and its GDP over the same period. The maximum level of eligible public investment should also be scaled by means of scaling factor (α) towards the fixed ceiling in the Union budget. That factor is determined such that with hindsight of the recent crisis, all the EISF support could have been provided to the Member States concerned, had the mechanism been in place.
- (24) The amount of EISF loan should also be automatically determined on the basis of a formula which firstly takes into account the maximum level of eligible public investment that can be supported under EISF and secondly the severity of the large asymmetric shock. The support determined on the basis of that formula should also be scaled in function of the severity of the shock by means of a factor (β). That factor is determined such that for a shock that increases unemployment by more than 2.5 percentage points, the maximum support is made available to the Member State concerned. An EISF loan could be increased up to the maximum level of eligible public investment in case the asymmetric shock is particularly severe as reflected by other indicators of the Member State's position in the economic cycle (e.g. confidence surveys) and a deeper analysis of the macroeconomic situation (as conducted in particular in the context of the macroeconomic forecast and the European Semester). With a view to ensure that as many Member States as possible could qualify for support under EISF, the loan to a Member State should not exceed 30 percent of the remaining available means under the ceiling set for calibrating the loans under EISF to the available means in the Union budget.
- (25) The amount of EISF interest rate subsidies should be determined as a percentage of the interest rate costs incurred by the Member State on the loan granted under the EISF.
- (26) A Stabilisation Support Fund should be established to finance the interest rate subsidy. The Stabilisation Support Fund should be endowed with national contributions from Member States whose currency is the euro and other Member States that participate in the exchange rate mechanism (ERM II).
- (27) Both the determination of the amount of the national contributions to the Stabilisation Support Fund and their transfer should be governed by an

intergovernmental agreement to be concluded between Member States whose currency is the euro and other Member States that participate in the exchange rate mechanism (ERM II). That agreement should provide that the national contributions for all the Member States are calculated based on the share of the national central banks of those Member States whose currency is the euro in the monetary income of the Eurosystem. For Member States which participate in ERM II a specific key should be foreseen to determine the national contributions. The Commission should assist the Member States for the calculation of those contributions. To that end, the European Central Bank (ECB) should communicate to the Commission the amount of monetary income the national central banks of the Eurosystem are entitled to.

- (28) After that intergovernmental agreement has entered into force, payment of the interest rate subsidy to the Member State concerned should be conditional upon the Member State transferring its yearly contribution to the Stabilisation Support Fund. Payment of interest rate subsidies should be conditional upon the availability of sufficient means in the Stabilisation Support Fund. Payment of interest rate subsidies from the Stabilisation Support Fund would be postponed in case the interest rate subsidy to a specific Member State would exceed 30 percent of the available means in the Stabilisation Support Fund at the moment when such payment is due.
- (29) The Commission should be in charge for managing the assets of the Stabilisation Support Fund in a safe and prudent manner.
- (30) In order to increase the impact of public investment and potential EISF support the quality of Member States' public investment systems and practices should be ensured and where appropriate strengthened. An assessment by the Commission should be carried out regularly and take the form of a report and if warranted contain recommendations to improve the quality of public investment systems and practices in Member States. A Member State could request technical assistance from Commission. The latter could undertake technical missions.
- (31) In order to determine the rules for the involvement of the ESM or its legal successor in providing financial assistance in parallel to the Commission in support of public investment, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of the exchange of relevant information as regards the EISF loan, the impact of the ESM's involvement for calculating the amount of EISF support, and the granting of an interest rate subsidy by the Stabilisation Support Fund to the Member State for costs incurred on ESM financial assistance. The Commission should also be empowered to adopt delegated acts determining the percentage in the formula

for calculating the interest rate subsidy, the detailed rules for the administration of the Stabilisation Support Fund and the general principles and criteria for its investment strategy. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement on Better Law-Making of 13 April 2016¹⁴. In particular, to ensure equal participation in the preparation of delegated acts, the European Parliament and the Council receive all documents at the same time as Member States' experts, and their experts systematically have access to meetings of Commission expert groups dealing with the preparation of delegated acts.

- (32) Pursuant to paragraph 22 and 23 of the Inter-institutional agreement for Better Law-Making of 13 April 2016, there is a need to evaluate this Regulation in order in particular to assess its effectiveness, its contribution to the conduct of economic policies in Member States and the Union's strategy for jobs and growth, and to determine possible further developments that are needed in order to create an insurance mechanism serving the purpose of macro-economic stabilisation. This will be done on the basis of information collected through specific monitoring requirements, while avoiding overregulation and administrative burdens, in particular on Member States. These requirements, where appropriate, can include measurable indicators, as a basis for evaluating the effects of the Regulation on the ground.
- (33) EISF should be considered as a first step in the development over time of a fully-fledged insurance mechanism to cater for macro-economic stabilisation. Currently, EISF would be based on loans and granting of interest rate subsidies. In parallel, it is not excluded that the ESM or its legal successor would be involved in the future by providing financial assistance to Member States whose currency is the euro facing adverse economic conditions in support of public investment. Moreover, a voluntary insurance mechanism with a borrowing capacity based on voluntary contributions by Member States could be set up in the future to provide for a powerful instrument for the purpose of macro-economic stabilisation against asymmetric shocks.
- (34) In accordance with the Financial Regulation, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council, Council Regulation (Euratom, EC) No 2185/96 and Council Regulation (EU) 2017/1939, the financial interests of the Union are to be protected through proportionate measures, including the prevention, detection, correction and investigation of irregularities and fraud, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, the imposition of administrative sanctions. In

¹⁴ OJ L 231, 12.5.2016, p. 1

particular, in accordance with Regulation (EU, Euratom) No 883/2013 and Regulation (Euratom, EC) No 2185/96 the European Anti-Fraud Office (OLAF) may carry out investigations, including on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union. In accordance with Council Regulation (EU) 2017/1939, the European Public Prosecutor's Office may investigate and prosecute fraud and other illegal activities affecting the financial interests of the Union as provided for in Directive (EU) 2017/1371 of the European Parliament and of the Council. In accordance with the Financial Regulation, any person or entity receiving Union funds is to fully cooperate in the protection of the Union's financial interests, to grant the necessary rights and access to the Commission, OLAF, the EPPO and the European Court of Auditors (ECA).

- (35) Horizontal financial rules adopted by the European Parliament and the Council on the basis of Article 322 of the Treaty on the Functioning of the European Union apply to this Regulation. These rules are laid down in the Financial Regulation and determine in particular the procedure for establishing and implementing the budget through grants, procurement, prizes, indirect implementation, and provide for checks on the responsibility of financial actors. Rules adopted on the basis of Article 322 TFEU also concern the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States, as the respect for the rule of law is an essential precondition for sound financial management and effective EU funding.
- (36) Since the objective of this Regulation, namely setting up a European Investment Stabilisation Function to absorb large asymmetric shocks which risk imperilling economic and social cohesion cannot be sufficiently achieved by Member States due to the architecture of the EMU with a centralised monetary policy but national fiscal policies, but can rather, by reason of the scale of action required be better achieved at the Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

PART I

INTRODUCTORY PROVISIONS

Article 1

Subject matter and scope

1. This Regulation establishes a European Investment Stabilisation Function (EISF).
2. The EISF shall provide financial assistance in the form of loans and interest rate subsidies for public investment to a Member State which is experiencing a large asymmetric shock.
3. EISF support shall be available for Member States whose currency is the euro and for other Member States that participate in the exchange rate mechanism referred to in Article 140(1) of the Treaty on the Functioning of the European Union.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

- a) 'agreement' means the intergovernmental agreement concluded between all Member States whose currency is the euro and other Member States that participate in the exchange rate mechanism (ERM II) determining the calculation and the transfer of their financial contributions to the Stabilisation Support Fund;
- b) 'public investment' means: general government gross fixed capital formation as defined in Annex A to Regulation (EU) No 549/2013 of the European Parliament and of the Council¹⁵;
- c) 'eligible public investment' means: (a) the public investment in support of policy objectives as defined in Regulation (EU) No [XX] of [XX] [*insert*

¹⁵ Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European System of national and regional accounts in the European Union, OJ L 174, 26.6.2013, p. 1

reference to new Common Provisions Regulation]¹⁶ and (b) any expenditure in areas of education and training as defined in Annex A to Regulation (EU) No 549/2013 and not covered in point (a);

- d) 'EISF support' means Union financial assistance within the meaning of Article [220] of the Financial Regulation in the form of loans and interest rate subsidies under the EISF in support of eligible public investment;
- e) 'public investment management systems and practices' means the Member States' internal processes of planning, allocating and implementing public investment;
- f) 'Union strategy for smart, sustainable and inclusive growth' means the targets and shared objectives guiding the action of Member States and the Union set out in the Conclusions adopted by the European Council of 17 June 2010 as Annex I (New European Strategy for Jobs and Growth, EU Headline Targets), Council Recommendation (EU) 2015/1184¹⁷ on broad guidelines for the economic policies of the Member States and of the European Union of 14 July 2015 and in Council Decision (EU) 2016/1838¹⁸, and any revision of such targets and shared objectives.

PART II

CRITERIA

Article 3

Eligibility criteria

- a) A Member State shall be eligible for EISF support where it is not subject to:
 - (i) a decision of the Council establishing that no effective action has been taken to correct its excessive deficit under Article 126(8) or Article 126(11) of the Treaty on the Functioning of the European Union in the two years prior to requesting support from the EISF;

¹⁶ [*Insert correct reference to new version of Common Provisions Regulation*]

¹⁷ OJ L 192, 18.7.2015, p. 27

¹⁸ OJ L 280, 18.10.2016, p. 30

- (ii) a decision of the Council in accordance with Article 6(2) or Article 10 of Council Regulation (EU) No 1466/97¹⁹ establishing that no effective action has been taken to address the observed significant deviation in the two years prior to requesting support from the EISF;
 - (iii) two successive recommendations of the Council in the same imbalance procedure in accordance with Article 8(3) of Regulation (EU) No 1176/2011 of the European Parliament and of the Council²⁰ on grounds that the Member State concerned has submitted an insufficient corrective action plan in the two years prior to requesting support from the EISF;
 - (iv) two successive decisions of the Council in the same imbalance procedure in accordance with Article 10(4) of Regulation (EU) No 1176/2011 of the European Parliament and of the Council having established non-compliance by the Member State concerned on grounds that it has not taken the recommended corrective action in the two years prior to requesting support from the EISF;
 - (v) a decision of the Council approving a macroeconomic adjustment programme within the meaning of Article 7(2) of Regulation (EU) No 472/2013;
- b) a decision of the Council implementing a medium-term financial assistance facility within the meaning of point (a) of Article 3(2) of Council Regulation (EC) No 332/2002²¹.

2. When the agreement has entered into force, a Member State shall only be eligible for receiving an interest rate subsidy if it complies with its obligations under the agreement.

Article 4

Activation criteria

- a) A Member State shall be considered to experience a large asymmetric shock if the following activation criteria are simultaneously fulfilled:

¹⁹ Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies OJ L 209, 2.8.1997, p. 1

²⁰ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances OJ L 306, 23.11.2011, p. 25

²¹ Council Regulation (EC) No 332/2002 OJ L 53/1, 23.02.2002, p. 1

- (i) the quarterly national unemployment rate exceeded the average unemployment rate in the Member State concerned over a period of 60 quarters preceding the quarter during which the request is made;
 - (ii) the quarterly national unemployment rate increased above one percentage point in comparison to the unemployment rate observed in same quarter of the previous year.
- b) The unemployment rate for the purposes of paragraph 1 shall be determined by reference to Regulation (EC) No 577/98²²
- c) In particular, it refers to the unemployment rate for the total population, all age categories, in percentage of active population.
- d) The quarterly national unemployment rate used for the purposes of paragraph 1 of this Article and point (c) of Article 8(1) shall be adjusted for seasonality.

Article 5

Supported investment

- a) A Member State benefitting from EISF support shall, in any given year in which it receives an EISF loan do the following:
 - (i) invest in eligible public investment an amount corresponding to at least the amount of the EISF loan,
 - (ii) maintain the same level of its public investment compared to the average level of its public investment in the five previous years.

The Commission may nevertheless conclude when adopting the decision in accordance with Article 6(2) that such level of public investment is unsustainable, in which case it shall determine the level of public investment to be maintained.

- b) The year following the disbursement of the EISF loan, the Commission shall examine whether the Member State concerned has respected the criteria referred to in paragraph 1. In particular, the Commission shall also verify the extent to which the Member State concerned has maintained eligible public investment in programmes supported by the Union under the European

²² Council Regulation (EC) No 577/98 of 9 March 1998 on the organisation of a labour force sample survey in the Community OJ L 77, 14.3.1998, p. 3

Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development.

If the Commission, after having heard the Member State concerned, concludes that the conditions referred to in paragraph 1 have not been complied with, it shall adopt a decision:

- (i) requesting the early repayment of whole or part of the EISF loan, as appropriate; and
- (ii) deciding that upon repayment of EISF loan the Member State concerned shall not be entitled to receive the interest rate subsidy.

The Commission shall adopt its decision without undue delay and shall make it public.

PART III

PROCEDURE AND FORM OF EISF SUPPORT

Article 6

Procedure for granting EISF support

- a) Where a Member State fulfils the eligibility criteria referred to in Article c) and is experiencing the large asymmetric shock referred to in Article 4, it may request the Commission once a year to receive EISF support. The Member State shall indicate its needs for support.

The Commission shall assess and answer the requests in the order it receives them. It shall act without undue delay.

- b) The Commission shall decide the terms of the EISF support. The decision shall contain the amount, the average maturity, the pricing formula, and the availability period of EISF loan and the amount of the interest rate subsidy, and the other detailed rules needed for the implementation of the support. When deciding on the terms of the EISF support, the Commission shall take into account the amount deemed to be sustainable within the meaning of Article [210(3)] of Regulation (EU, Euratom) No XX (the ‘Financial Regulation’) under the own resources ceiling for payment appropriations.

PART IV

AMOUNT OF EISF SUPPORT

Article 7

Maximum amount of loans

The outstanding amount of loans granted to Member States under this Regulation shall be limited to EUR 30 billion in principal.

Article 8

Amount of EISF loan

1. Without prejudice to paragraph 3, the amount of an EISF loan (S) shall be determined in accordance with the following formula:

$$S = \beta \times I_S \times (\text{Increase in unemployment}_{\text{MS}} - \text{threshold level})$$

subject to $S \leq I_S$

For the purpose of this formula, the following definitions apply:

- a) ' β ' is 0.66;
- b) ' I_S ' means the maximum level of eligible public investment that the EISF may support in the Member State concerned referred to in paragraph 2;
- c) '*Increase in unemployment*_{MS}' means the increase in the quarterly national unemployment rate referred to in point (b) of Article 4(1) expressed in percentage points;
- d) 'threshold level' means the threshold defined in point (b) of Article 4(1) expressed in percentage points.

The Commission may nevertheless increase the amount of an EISF loan (S) up to the amount of I_S in case of particular severity of the large asymmetric shock experienced by the Member State concerned.

2. The maximum level of eligible public investment that the EISF may support in a Member State (I_S) shall be determined in accordance with the following formula:

$$I_S = \alpha \times \frac{\text{Average Public Investment}_{EU}}{GDP_{EU}} \times GDP_{MS}$$

For the purposes of this formula the following definitions apply:

- a) 'α' is 11.5;
- b) ' $\frac{\text{Average Public Investment}_{EU}}{GDP_{EU}}$ ' means the ratio of eligible public investment to GDP in the Union, in current prices and on average over a period of five full years before the request for EISF support in accordance with Article 6(1);
- c) ' GDP_{MS} ' means the GDP of the Member State concerned in current prices and on average over a period of five full years before the request for support in accordance with Article 6(1);
- d) An EISF loan shall not exceed 30 percent of the available amount referred to in Article 7 after deduction of the total amount of outstanding loans awarded under EISF.

Article 9)

Amount of EISF interest rate subsidies

1. An interest rate subsidy (IRS) shall contribute to the interest costs of the EISF loan incurred by the Member State. The amount of an EISF interest rate subsidy shall be determined in accordance with the following formula:

$$IRS = 100 \text{ percent of interest rate cost}_{MS}$$

For the purpose of this provision, 'interest rate cost' means the amount of interest based on the pricing formula determined in the decision of the Commission referred to in Article 6(2) taking into account any refinancing in accordance with Article 12(4);

2. The Commission shall be empowered to adopt delegated acts in accordance with the procedure laid down in Article 21, to amend this Regulation by determining the percentage referred to in paragraph 1 if this appears necessary in view of the implementation of the agreement or the eventual deferral of payments under Article 18(2).

Article 10

Financial support by the ESM or its legal successor

1. In case the ESM or its legal successor provides financial assistance to Member States in support of eligible public investment under modalities and conditions consistent with this Regulation, the Commission shall be empowered to adopt delegated acts in accordance with the procedure laid down in Article 21 in order to:
 - a) supplement this Regulation by specifying the exchange of information between the Commission and the ESM or its legal successor as regards the elements referred to in Article 6(2);
 - b) supplement this Regulation by determining rules of complementarity between the financial assistance from the ESM or its legal successor and amounts of EISF support calculated in accordance with Articles 8 and 9;
 - c) amend or supplement Articles 9 and 18 to allow for granting an interest rate subsidy by the Stabilisation Support Fund to Member States for interest costs incurred on financial assistance granted by the ESM or its legal successor to Member States in support of eligible public investment.

PART V

PROCEDURES FOR DISBURSMENT AND IMPLEMENTATION

Title I

Loans

Article 11

Disbursement of the loan

1. The EISF loan shall, in principle, be disbursed in one instalment.

Article 12

Borrowing and lending operations

1. The borrowing and lending operations shall be carried out in euro.
2. After the Commission has adopted a decision in accordance with Article 6(2), the Commission is authorised to borrow on the capital markets or from financial institutions at the most appropriate time in between planned disbursements so as to optimise the cost of funding and preserve its reputation as issuer in the markets. Funds raised but not yet disbursed shall be kept at all times on a dedicated cash or securities account which are handled in accordance with the rules applying to off-budget operations and cannot be used for any other goal than to provide financial support to Member States under the present mechanism.
3. Where a Member State receives an EISF loan carrying an early repayment clause and decides to exercise this option, the Commission shall take the necessary steps.
4. At the request of the Member State or at the initiative of the Commission and where circumstances permit an improvement in the interest rate on the EISF loan, the Commission may refinance all or part of its initial borrowing or restructure the corresponding financial conditions.

Article 13

Costs

Without prejudice to Article 9, the costs incurred by the Union in concluding and carrying out each operation shall be borne by the Member State receiving the EISF loan.

Article 14

Administration of loans

1. The Commission shall establish the necessary arrangements for the administration of the loans with the ECB.
2. The Member State concerned shall open a special account with its national central bank for the management of EISF support received. It shall also transfer the principal and interest due under the EISF loan to an account with the ECB fourteen TARGET2 business days prior to the corresponding due date.

Title II

Interest rate subsidy

Article 15

Disbursement of the interest rate subsidy

Without prejudice to Article 5(2) and Article 16, the interest rate subsidy shall be paid to the Member State concerned at the moment when the Member State repays the EISF loan or interest due.

Title III

Control

Article 16

Control and audits

1. Without prejudice to Article 27 of the Statute of the System of European Central Banks and of the European Central Bank, the European Court of Auditors shall have the right to carry out in the Member State concerned any financial controls or audits that it considers necessary in relation to the management of the EISF support.
2. The Commission, including the European Anti-Fraud Office, shall in particular have the right to send its officials or duly authorised representatives to carry out in the Member State concerned any technical or financial controls or audits that it considers necessary in relation to EISF support.
3. Audits on the use of the Union contribution carried out by persons or entities, including by others than those mandated by the Union institutions or bodies, shall form the basis of the overall assurance pursuant to Article [127] of the Financial Regulation.

PART VI

THE STABILISATION SUPPORT FUND

Article 17

Constitution of the Stabilisation Support Fund

1. The Stabilisation Support Fund is hereby established.
2. The Stabilisation Support Fund shall be endowed with the following:
 - a) contributions from Member States in accordance with the agreement;
 - b) returns on invested resources of the Stabilisation Support Fund;
 - c) repayments of interest rate subsidies by Member States in accordance with point (b) of Article 5(2).
3. Revenues of the Stabilisation Support Fund as provided for in point (a) of paragraph 2 shall constitute external assigned revenue, and revenues as provided for in point (c) of paragraph 2 shall constitute internal assigned revenue in accordance with Article [21(4)] of the Financial Regulation.
4. For the purpose of calculating the contributions referred to in point (a) of paragraph 2, the ECB shall, by 30 April at the latest in any given year, communicate to the Commission the amount of monetary income allocated to the national central banks of the Eurosystem pursuant to Article 32 of Protocol No 4 on the Statute of the European System of Central Banks and the European Central Bank.

Article 18

Use of the Stabilisation Support Fund

1. The resources of the Stabilisation Support Fund may only be used for the purpose of payment of interest rate subsidies to Member States referred to in Article 9.
2. Payment of an interest rate subsidy shall not exceed 30 percent of the available means in the Stabilisation Support Fund at the moment when such payment to the Member State concerned is due. Any further payment shall be

deferred. Any new contributions to the Stabilisation Support Fund referred to in Article 17(2) shall be firstly used for honouring deferred payments to the Member States concerned. In case of more than one deferred payment, the order in which such payments shall be honoured shall be determined by the length of time of the deferral starting with the longest time.

Article 19

Administration of the Stabilisation Support Fund

1. The Commission shall directly administer the Stabilisation Support Fund in accordance with this Regulation and delegated acts referred to under paragraph 3.
2. The Commission shall have a prudent and safe investment strategy that is provided for in the delegated acts referred to in paragraph 3 in accordance with the principle of sound financial management following appropriate prudential rules, and shall invest the amounts held in the Stabilisation Support Fund in cash and cash equivalent money market instruments, debt and credit related securities, such as term deposits, bonds, notes, obligations or asset backed securities, including with floating or zero coupons as well as index-linked securities. Investments shall be sectorally, geographically and proportionally diversified sufficiently. The return on those investments shall benefit the Stabilisation Support Fund.
3. The Commission shall be empowered to adopt delegated acts supplementing this Regulation by setting the detailed rules for the administration of the Stabilisation Support Fund and general principles and criteria for its investment strategy, in accordance with the procedure laid down in Article 21.

PART VII

QUALITY OF PUBLIC INVESTMENT MANAGEMENT SYSTEMS AND PRACTICES

Article 20

Quality of public investment management systems and practices

1. In order to increase the impact of public investment and potential EISF support, Member States shall take the necessary actions to achieve and maintain public investment management systems and practices of high quality.

2. By [DATE *two years after the entry into force of this Regulation*] at the latest, and every five years after, the Commission shall examine the quality of the public investment management systems and practices in Member States. The Commission shall prepare a report containing a qualitative assessment and a score based on a set of indicators and, if necessary, recommendations to improve the quality of the public investment management systems and practices. The report shall be made public.
3. The methodology for assessing the quality of public investment management systems and practices of Member States is set out in the Annex. The Commission shall assess on a regular basis the appropriateness of the methodology and criteria used, and it shall adjust or modify them where necessary. The Commission shall make changes in the underlying methodology and criteria public.
4. The Commission shall be empowered to adopt delegated acts amending or supplementing this Regulation by updating the methodology and criteria referred to in paragraph 3, in accordance with the procedure laid down in Article 21.

PART VIII

FINAL PROVISIONS

Article 21

Exercise of delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.
2. The delegation of power referred to in Article 10, Article 19(3), and Article 20(5) shall be conferred on the Commission for an indeterminate period of time from [DATE/*entry into force of this Regulation*].
3. The delegation of power referred to in Article 10, Article 19(3) and Article 20(5), may be revoked at any time by the European Parliament or the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement on Better Law-Making of 13 April 2016.
5. As soon as it adopts a delegated act, the Commission shall notify it simultaneously to the European Parliament and the Council.
6. A delegated act adopted pursuant to Article 10, Article 19(3) and Article 20(5) shall enter into force only if no objection has been expressed either by the European Parliament or by the Council within a period of three months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by three months at the initiative of the European Parliament or the Council.

Article 22

Reporting and review

1. Indicators to report on progress of the Regulation towards the achievement of the objectives set out in recital 36 and Article 1 are set in Annex 2.
2. To ensure effective assessment of progress of the Programme towards the achievement of its objectives, the Commission is empowered to adopt delegated acts in accordance with Article 21 to amend Annex II to review or complement the indicators where considered necessary and to supplement this Regulation with provisions on the establishment of a monitoring and evaluation framework.
3. The performance reporting system shall ensure that data for monitoring implementation and results are collected efficiently, effectively, and in a timely manner. To that end, proportionate reporting requirements shall be imposed on recipients of EISF support.
4. Evaluations shall be carried out in a timely manner to feed into the decision-making process.
5. An interim evaluation of the EISF shall be performed once there is sufficient information available about the implementation of the EISF. A final evaluation of the EISF shall be carried out by the Commission four years after the entry into force of this Regulation,

This evaluation shall assess, among other things,

- (i) the effectiveness of this Regulation;
- (ii) the contribution by EISF to the conduct of the economic policies of Member States in such a way as to strengthen cohesion in the Union;
- (iii) the contribution of this Regulation to the achievement of the Union's strategy for growth and jobs;
- (iv) the appropriateness of developing a voluntary insurance mechanism serving the purpose of macroeconomic stabilisation.

Where appropriate, the evaluation shall be accompanied by a proposal for amendments to this Regulation.

6. The Commission shall communicate the conclusions of the evaluation accompanied by its observations, to the European Parliament, the Council, the Eurogroup, the European Economic and Social Committee and the Committee of the Regions.

Article 23)

Entry into force

This Regulation shall enter into force on the [twentieth day following] that of its publication in the *Official Journal of the European Union*.

Paragraph (b) of Article 2(2) shall enter into force on [DATE].

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President

ANNEX I: METHODOLOGY FOR ASSESSING THE QUALITY OF MEMBER STATES PUBLIC INVESTMENT MANAGEMENT SYSTEMS AND PRACTICES

1. Scope

With a view to increase the impact of public investment and of any potential EISF support, the assessment of the quality of public investment management systems and practices of Member States shall contribute to their high-quality. Such assessment shall help increasing efficient planning, allocation, and implementation of public investment at national level.

The indicators are based on the principles established by this Regulation with regard to the aim and scope of EISF, eligibility criteria, and activation criteria.

2. Indicators

Fifteen indicators as regards public investment decision-making at three different stages of the public investment cycle shall be examined by the Commission in the context of the qualitative assessment referred to in Article 1.

The three key stages of the public investment cycle are:

1. planning of public investment across the public sector ("planning phase");
2. allocating public investment to sectors and projects ("allocation phase");
3. implementing projects on time and on budget ("implementation phase").

The following indicators shall be used to assess the *planning phase*:

- a) fiscal rules and principles are such that they ensure that overall levels of public investment are adequate, predictable and sustainable;
- b) sectoral plans are such that they ensure public investment decisions are based on clear and realistic priorities, cost estimates and objectives for each sector;
- c) central and local coordination arrangements are such that public investment plans are integrated across levels of government, provide certainty about

funding from the central government and ensure sustainable levels of subnational borrowing;

- d) management of public-private partnerships (PPP) are such that they ensure an effective evaluation, selection and monitoring of PPP projects and liabilities;
- e) the regulations governing infrastructure companies is such that it ensures open and competitive markets for the provision of infrastructure services, an objective pricing of infrastructure outputs and the effective oversight of infrastructure company investment plans.

The following indicators shall be used to assess the *allocation phase*:

- a) multi-year budgeting that provides transparency and predictability regarding levels of investment by ministries, programs and projects over the medium-term;
- b) budget comprehensiveness which shall be reflected by the fact that all public investment regardless of the funding channel is authorised by the legislature and disclosed in the budget documentation;
- c) budget unity which shall be reflected by the fact that decisions about individual projects take account of both their immediate capital and future operating and maintenance costs;
- d) project appraisal which shall be reflected by the fact that project proposals are subject to published appraisal using standard methodology and takes potential risk into account;
- e) project selection which shall be reflected by the fact that projects are systematically selected and approved on the basis of transparent criteria and included in the pipeline of approved public investment projects.

The following indicators shall be used to assess the *implementation phase*:

- a) protection of public investment shall be reflected by project appropriations which are sufficient to cover total project costs and cannot be diverted at the discretion of the executive;

- b) availability of funding which allows for planning and commitment of investment projects based on reliable forecasts and timely cash flows from the treasury;
- c) transparency of budget execution: major public investment projects are tendered in a competitive and transparent process, monitored during project implementation and independently audited;
- d) project management: an accountable project manager is identified and is working in accordance with improved implementation plans and provides standardized procedures and guidelines for project adjustment
- e) monitoring of public assets: assets are properly recognised, measured, and reported and their depreciation is recognized in general purpose financial statements.

3. Scoreboard and reporting

A scoreboard and summary chart for each Member State shall be made for the purpose of identifying the strengths and weaknesses of the public investment management systems and practices in a transparent manner.

The Commission shall present the findings of its assessment in a report addressed to the Member States.

4. Recommendations

The Commission may address practical recommendations to Member States on the basis of its assessment to enable the Member State concerned to enhance the efficiency of its public investment management systems and practices.

ANNEX II: MONITORING INDICATORS FOR REPORTING AND REVIEW

1. Scope

Pursuant to Article 22 of the Regulation and paragraph 22 and 23 of the Inter-institutional agreement for Better Law-Making of 13 April 2016, there is a need to evaluate the Regulation in order to ensure the effective assessment of progress of the Regulation towards the achievement of the objectives set out in recital 35 and Article 1.

This will be done on the basis of information collected through specific monitoring requirements, while avoiding overregulation and administrative burdens, in particular on Member States. These requirements, where appropriate, can include measurable indicators, as a basis for evaluating the effects of the Regulation on the ground.

2. Indicators

The following indicators to review and report on progress of the Regulation towards the achievement of its objectives may be used by the Commission in the context of the review and reporting referred to in Article 22:

- a) GDP;
- b) measures of the output gap;
- c) employment, unemployment rate, participation rates, indicators of part time employment, hours worked;
- d) gross fixed capital formation of the general government, including sectoral data;
- e) gross fixed capital formation financed by programmes supported by the Union under the European Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development;
- f) general government accounts, including the budget balance, the cyclically adjusted budget balance, the fiscal stance, public deficit, debt, revenue patterns including windfalls and shortfalls, automatic stabilisers, interest expenditure;
- g) financial market data, such as interest rates of sovereign bonds.

ANNEX: AGREEMENT ON THE TRANSFER OF CONTRIBUTIONS TO THE STABILISATION SUPPORT FUND

THE CONTRACTING PARTIES, the Kingdom of Belgium, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Grand Duchy of Luxembourg, the Republic of Malta, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Slovenia, the Slovak Republic, the Republic of Finland and the Kingdom of Denmark;

COMMITTED TO achieving the proper functioning of a public investment stabilisation instrument;

WHEREAS:

- 1) In December 2017, the Commission called for the roll-out of a stabilisation function as a way to preserving investment levels in the event of large asymmetric shocks in its Communication to the European Parliament, the Council and the European Central Bank on new budgetary instruments for a stable euro area within the Union framework.
- 2) Through Regulation (EU) No XX/XX of the European Parliament and the Council on the establishment of a European Investment Stabilisation Function (“EISF Regulation”) the Union establishes a European Investment Stabilisation Function (EISF).
- 3) The EISF provides financial assistance in the form of loans and interest rate subsidies to Member States whose currency is the euro (euro area Member States) and Member States with a derogation in the meaning of Article 139(1) of the Treaty on the Functioning of the European Union (TFEU) which participate in the exchange rate mechanism (ERM II) (noneuro area Member States participating in ERM II) for public investment in a Member State which is experiencing a large asymmetric shock.
- 4) The EISF Regulation establishes, in particular, a Stabilisation Support Fund as well as the modalities for its endowment, use and administration. The obligation for the Contracting Parties to transfer contributions to the Stabilisation Support Fund does not derive from the law of the Union. Such obligation is established by this Agreement which lays down the rules upon which the Member States as Contracting Parties jointly agree to transfer the contributions to the Stabilisation

Support Fund, in accordance with their respective constitutional requirements. The contributions shall be included into the general budget of the Union in accordance with Article 17(3) of the EISF Regulation

- 5) Accordingly, the Contracting Parties have concluded this Agreement whereby, inter alia, the methodology is established for the calculation of contributions as well as the obligation to transfer such contributions to the Stabilisation Support Fund.
- 6) National contributions by euro area Member States are calculated as a percentage of the share their national central banks are allocated in the monetary income of the Eurosystem at the end of the preceding financial year. For non-euro area Member States participating in ERM II the national contributions are calculated as a percentage of the monetary income of the Eurosystem over euro area GDP multiplied with the GDP of the non-euro area Member State participating in ERM II. The Commission would calculate the amounts of the annual contributions.
- 7) The content of this Agreement is limited to those specific elements concerning the Stabilisation Support Fund that remain within the competence of the Contracting Parties. This Agreement does not affect common rules established under the law of the Union or does not alter their scope. It is designed as complementary to the Union legislation on the EISF and is supportive and intrinsically linked to the achievement of Union policies, in particular cohesion.
- 8) This Agreement should be ratified by all euro area Member States and non-euro area Member States participating in the exchange rate mechanism (ERM II). Other Member States should accede to this Agreement with full rights and obligations, in line with those of the existing Contracting Parties, as from the date when they effectively participate in the exchange rate mechanism (ERM II).
- 9) Since this Agreement is complementary to the Union legislation on the EISF, disputes concerning its interpretation and application arising between the Contracting Parties, including those concerning compliance with the obligations laid down therein should be submitted to the Court of Justice of the European Union in accordance with Article 273 TFEU.

HAVE AGREED ON THE FOLLOWING PROVISIONS:

TITLE I

PURPOSE AND SCOPE

Article 1

By this Agreement, the Contracting Parties commit transferring contributions to the Stabilisation Support Fund set up by Article 17 of Regulation (EU) No XX/XX of the European Parliament and the Council on the establishment of a European Investment Stabilisation Function ("EISF Regulation") thereby supporting the effective operation and proper functioning of the Stabilisation Support Fund.

TITLE II

CONSISTENCY AND RELATIONSHIP WITH THE LAW OF THE UNION

Article 2

- 1) This Agreement shall be applied and interpreted by the Contracting Parties in conformity with the Treaties on which the European Union is founded and with European Union law, in particular Article 4(3) of the TEU and Union legislation concerning the European Investment Stabilisation Function.
- 2) This Agreement shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with Union law.
- 3) For the purpose of this Agreement, the relevant definitions set out in Article 2 of the EISF Regulation shall apply.

TITLE III

CALCULATION OF CONTRIBUTIONS

Article 3

- 1) The annual contribution of each Contracting Party whose currency is the euro to the Stabilisation Support Fund shall be equivalent to 6 percent of the amount of monetary income allocated to its national central bank at the end of the preceding

financial year in accordance with Article 32 of Protocol No 4 on the Statute of the European System of Central Banks and the European Central Bank.

- 2) The annual contribution to the Stabilisation Support Fund of a Contracting Party which participates in the exchange rate mechanism referred to in Article 140(1) of the TFEU shall be equivalent to:

$$C = 0.06 \times \frac{\textit{monetary income ES}}{GDP_{EA}} \times GDP_{ERM II MS}$$

TITLE IV

TRANSFER OF CONTRIBUTIONS

Article 4

Transfer of contributions

- 1) Contracting Parties shall transfer their annual contributions through the Commission to the Stabilisation Support Fund by 30 June at the latest. The contributions shall be included into the general budget of the Union in accordance with Article 17(3) of the EISF Regulation.
- 2) A Contracting Party shall not be obliged to transfer its annual contribution to the Stabilisation Support Fund if on 30 June of the year concerned it is subject to:
 - a) a decision of the Commission granting EISF support within the meaning of Article 6(2) of the EISF Regulation;
 - b) a decision of the Council approving a macroeconomic adjustment programme within the meaning of Article 7(2) of Regulation (EU) No 472/2013;
 - c) a decision of the Council implementing a medium-term financial assistance facility within the meaning of Article 3(2) of Council Regulation (EC) 332/2002.
- 3) Where a Contracting Party becomes subject to a decision referred to in paragraph 2 after 30 June of the year concerned, its annual contribution shall

be retransferred within six months at the latest.

- 4) The Commission shall establish the necessary arrangements for the transfers of the contributions by Contracting Parties to the Stabilisation Support Fund.

Article 5

Compliance

Contracting parties shall take the necessary measures in their national legal orders to ensure compliance with their obligation to transfer their annual contributions in accordance with this Agreement.

TITLE V

GENERAL AND FINAL PROVISIONS

Article 6

Ratification, approval or acceptance and entry into force

This Agreement shall be subject to ratification, approval or acceptance by its signatories in accordance with their respective constitutional requirements. The instruments of ratification, approval or acceptance shall be deposited with the General Secretariat of the Council of the European Union ("Depositary"). The Depositary shall notify the other signatories of each deposit and the date thereof.

Article 7

Entry into force

1. This Agreement shall enter into force on the date when instruments of ratification, approval or acceptance have been deposited by all Contracting Parties or on the date of entry into force of the EISF Regulation whichever is the latest.
2. Within three months of the date that the Agreement enters into force, Contracting Parties shall transfer their first annual contributions determined in accordance with Article 3 to the Stabilisation Support Fund.

Article 8

Accession by non-euro area Member States

1. This Agreement shall be open for accession by other Member States of the European Union as from the date of their participation in the exchange rate mechanism referred to in Article 140(1) of the TFEU. Accession to this Agreement shall be effective upon depositing the instrument of accession with the Depositary, who shall notify the other Contracting Parties thereof.
2. Following authentication by the Contracting Parties, the text of this Agreement, in the official language of the acceding Member State that is also an official language of the institutions of the Union, shall be deposited in the archives of the Depositary as an authentic text of this Agreement.

Article 9

Dispute settlement

1. Where a Contracting Party disagrees with another Contracting Party on the interpretation of any of the provisions of this Agreement or when it considers that another Contracting Party has failed to comply with its obligations under this Agreement, it may bring the matter before the Court of Justice of the European Union. The judgment of the Court of Justice shall be binding on the parties to the proceedings.

If the Court of Justice finds that a Contracting Party has failed to comply with its obligations under this Agreement, the Contracting Party concerned shall take the necessary measures to comply with the judgment within a period decided by the Court of Justice.

2. This Article constitutes a special agreement between the Contracting Parties within the meaning of Article 273 of the TFEU.

Done at Brussels on [DATE] 20XX, in a single original, whose Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Irish, Italian, Latvian, Lithuanian, Maltese, Portuguese Slovak, Slovenian, and Spanish texts are equally authentic, which shall be deposited in the archives of the Depositary which shall transmit duly certified copy to each of the Contracting Parties.

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

On the establishment of the Reform Support Programme

COM (2018) 391 final 31.05.2018

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

This proposal provides for a date of application as of 1 January 2021 and is presented for a Union of 27 Member States, in line with the notification by the United Kingdom of its intention to withdraw from the European Union and Euratom based on Article 50 of the Treaty on European Union received by the European Council on 29 March 2017.

Reasons for and objectives of the proposal

Structural reforms are changes that modify - in a lasting way - the structure of economy and the institutional and regulatory framework in which businesses and people operate. They often aim at tackling obstacles to the operation of the drivers of growth by, for example, reorganising the markets for labour, products and services and financial markets, thereby encouraging job creation, investment and productivity. They can also aim at improving the efficiency and quality of the public administration and of the services and benefits offered by State to its citizens.

If well-chosen and implemented, structural reforms can accelerate the process of upward social and economic convergence among the Member States, both inside and outside the euro area, and strengthen the resilience of their economies. The effects of such convergence and strengthening of resilience are expected to lead to greater prosperity and to smooth and stable functioning of the Economic and Monetary Union (EMU) as a whole. Effective implementation of structural reforms is necessary to

enhance cohesion, raise productivity, create jobs, encourage investment and ensure sustainable growth.

Europe's economy is growing at its fastest pace in a decade, supported by record high employment, recovering investment and improved public finances. The current Union-wide economic situation is relatively positive, which provides a window of opportunity to put in place much needed reforms. However, implementation of reforms has been advancing slowly and unevenly across Member States, and it has not been satisfactory across all policy areas, leading to adverse impacts on convergence and on the resilience of the economies of the European Union Member States and therefore of the Union as a whole. In that context, making progress on the implementation of reforms in non-euro-area Member States on their way to joining the euro area could have positive impacts on the euro area as a whole. Therefore, implementation of reforms by non-euro-area Member States, which are taking steps to adopt the euro, deserves particular attention.

One reason for the slow implementation of reforms is low administrative capacity. Another reason is that the benefits of structural reforms often materialise only over the long term, while their economic, social and political costs are often incurred in the short term. National governments might therefore refrain from carrying out some reforms due, for instance, to insufficient administrative capacity to conduct reforms, high political costs in the short term or adverse effects on some segments of the population. Governments that do embark on reforms sometimes find it difficult to see the reforms through to the end because the duration of an electoral cycle is often shorter than the time needed for the implementation of major reforms. As a consequence, necessary reform efforts may be delayed, abandoned or even reversed.

The Juncker Commission, building upon the vision set out in the Five Presidents' Report, has focussed the Commission's priorities in the European Semester process on the "virtuous triangle" of boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies.

To promote structural reforms, President Juncker's 2017 State of the Union Address, together with the Reflection papers on the deepening of the Economic and Monetary Union and the future of the Union's finances, suggested building on the Commission's Structural Reform Support Programme (SRSP) and proposed a dedicated instrument, the Reform Delivery Tool, to provide financial incentives to Member States to carry out reforms.

Achieving more convergence towards resilient economic structures was also highlighted as being equally important for those Member States preparing to join the euro area.

Those political orientations materialised in a Commission Communication on new budgetary instruments for a stable euro area within the Union framework (6 December 2017). It proposed the creation – under the post-2020 Multiannual Financial Framework (MFF)¹ – of a new reform delivery tool to support the implementation of reforms identified in the context of the European Semester and a follow-up programme to the SRSP, which would also include a dedicated convergence facility to support preparation for euro-area membership. The Commission's Communication on a new, modern MFF post-2020², prepared ahead of the Informal Leaders' meeting of 23 February 2018, confirmed that intention by announcing that the reform delivery tool and the convergence facility would need to provide strong support and incentives for a broad range of reforms across Member States. It also indicated that there would be a budget line for all instruments in the order of at least EUR 25 billion over a seven-year period.

Lastly, the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A Modern Budget for a Union that Protects, Empowers and Defends - The Multiannual Financial Framework for 2021-2027"³ of 2 May 2018 confirmed that choice. It announced a new, strong Reform Support Programme, which would offer technical and financial support for reforms at national level with an overall budget of EUR 25 billion. The new programme will be separate from but complementary to the future Union funds as defined in Regulation (EU) XXX/xxx (CPR successor)⁴.

Against that background, the Commission is proposing a new Reform Support Programme (the Programme), which includes three separate complementary instruments: (i) the reform delivery tool, in the form of a financial support instrument; (ii) a follow-up programme to the SRSP, in the form of a technical support instrument; and (iii) a convergence facility, to provide specific and targeted support to non-euro-area Member States (also referred to as a "convergence facility"). The Programme thus aims to support Member-State governments and public authorities, upon their request for technical support or upon their submission of proposals for reform commitments, in their efforts to design and implement growth-sustaining structural reforms. The Programme is intended to contribute to the overall objective of enhancing cohesion,

¹ Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank, new budgetary instruments for a stable euro area within the Union framework, COM(2017) 822 final

² Communication from the Commission to the European Parliament, the European Council and the Council, A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020, COM(2018) 98 final

³ Communication from the Commission to the European Parliament, the European Council and the Council, the European Economic and Social Committee and the Committee of the Regions, a modern budget for a Union that protects, empowers and defends, SWD(2018) 171 final

⁴ OJ C , , p. .

competitiveness, productivity, growth, and employment. It could also have a positive impact on the realisation of the European Pillar of Social Rights. For those purposes, it should provide sufficient financial incentives for the accomplishment of reforms of a structural nature and technical support to strengthen the administrative capacity of the Member States in relation to challenges faced by institutions, governance, public administration, and economic and social sectors.

With that objective in mind, targeted technical support and financial incentives will be provided to all Member States, including – in the context of the convergence facility – those Member States whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame.

Consistency with existing policy provisions in the policy area

The Programme will be consistent with existing policies carried out under the Union funds and other Union programmes. Furthermore, the Programme builds up on the current experience of the SRSP.

Under the current MFF and the existing sectoral legislation, several instruments are available at Union level to support the implementation of structural reforms. On the policy side, the policy recommendations provided by the Union under the European Semester help to identify reform priorities and reach political agreement on thereon with Member States. In addition, the SRSP provides technical support to Member States for the preparation, design and implementation of structural reforms, while the Union funds programmes finance investment-project-related elements in the policy areas addressed by the Union funds. The legal framework of the Union funds requires thematic concentration of funding and sets a number of enabling conditions prior to the disbursement of funds. While it is foreseen that the link between the Union funds and the European Semester will be further strengthened in the new MFF and although those actions under the Union funds are instrumental for achieving the cohesion policy objectives and ensuring the effectiveness of these funds, they are not necessarily sufficient to address the obstacles to more rapid implementation of structural reforms in Member States.

Reform Delivery Tool

The Programme, as an instrument for providing financial contributions to Member States, will provide financial incentives for the implementation of reforms in Member States, while ensuring consistency with actions financed under other existing Union programmes. To date, funds to support the implementation of investment-related actions linked to structural reforms in Member States are mainly available through the Union funds. However, while the Union funds can provide support to the investment components of some structural challenges relevant to cohesion policy, they are not

intended for promoting the design and implementation of structural reforms to tackle challenges in all policy areas identified in the European Semester in their entirety. In addition, the Union funds cannot finance reforms that are purely regulatory and have no implementation or investment costs.

Many of the structural challenges facing Member States cannot be addressed solely through investments or strict technical implementation of a programme; they may require a complex mix of policy actions and legislation, investments and improvements in the governance of institutions and systems. Structural reforms may also involve high political costs in the short term, which can prevent or slow down their implementation. In that respect, financial incentives from the Union budget may help overcome such obstacles and, combined with technical support or on a standalone basis, may help ensure political ownership of the reforms. A more in-depth dialogue between the Commission and the competent national authorities may encourage Member States to design and implement a comprehensive set of reforms.

The Reform Support Programme, as an instrument to provide financial support, will allow for the provision of such financial incentives and it is, therefore, consistent with the measures under other Union financing programmes.

Technical support instrument

The Programme, as an instrument to provide technical support, allows the Commission to support Member-State authorities in their efforts to design reforms according to their own priorities and enhance their capacity to develop and implement reform policies and strategies, as well as benefitting from good practices and examples of peers. The technical support instrument builds on the success of the SRSP, which has experienced demand as high as four (in 2017) and five (in 2018) times its annual available budget in the two selection rounds during its implementation so far. It focuses on the provision of tailor-made support and expertise on the ground, to ensure that the Member States have the necessary institutional and administrative capacity to implement reforms. To that end, it aims to accompany the national authorities of the requesting Member States throughout the reform process or in defined stages or different phases of that process. The technical support instrument under the Programme, designed as a continuation of the existing SRSP, is consistent, coherent and complementary to the existing resources for capacity building and technical assistance, which are available within other Union financing programmes. The technical support adds value to the existing assistance provided by the various sectoral Union programmes and the actions carried out under the Union funds, since it offers a country-specific perspective, while supporting the most important actions undertaken in Member States in line with the key policy objectives of the Union.

Convergence facility

The Programme, as a convergence facility for preparation for euro-area membership, will allow the Commission to cater for the specific needs of non-euro-area Member States that embark on structural reforms, by offering additional tools for making their economies and social structures more resilient to shocks and better preparing them for euro-area membership. The convergence facility will come on top of the reform delivery tool that is available to all Member States. Currently, there are no instruments that provide direct financial incentives for the implementation of structural reforms in all Member States, let alone non-euro-area Member States. While Member States that are not in the euro area benefit from the Union funds, the latter are not intended to address major structural reforms that would underpin economic resilience and thereby help such Member States prepare comprehensively for future membership in the euro area. Through the provision of targeted support for non-euro-area Member States that have taken demonstrable steps to adopt the single currency within a given time-frame, the Reform Support Programme is expected to accelerate the process of convergence in those Member States, thereby contributing to the fulfilment of the convergence criteria and to the resilience of the euro area as a whole.

As regards consistency with other provisions and policies, the Programme provides for complementarity, synergies, coherence and consistency with other Union programmes and policies at regional, national, Union and international levels, notably by complementing the policy guidance provided under the European Semester and by helping to leverage the use of the Union funds.

The Commission will ensure that the actions proposed for implementation under the Programme are complementary to and do not overlap with other Union programmes and funds (the Union funds in particular), based on clear demarcation lines. In addition, coordination for all three instruments with respect to other Union programmes and Union funds will continue to be ensured via the governance of the various instruments within the internal working arrangements of the Commission. In particular, this will be achieved through the already-existing coordination mechanism involving representatives of the Commission services concerned. Decisions to provide support to a Member State will, *inter alia*, take into account the existing actions and measures financed by the Union funds and programmes. The coordination mechanism will be strengthened to reflect the increased need for complementarity, synergy, coherence and consistency among several programmes under the MFF, in particular with a view to, on the one hand, carrying out the process of programming of the Union funds under shared management, and, on the other hand, selecting reforms under the Programme, so as to maximise the efficiency and effectiveness of the Union actions and resources.

As regards financial incentives, the fact that the reforms benefitting from financial contributions from the Programme will be identified in the context of the existing European Semester process will be instrumental for ensuring additionality and for

avoiding the provision of support to reforms that would have happened in any case. In addition, the monitoring of the implementation of those reforms within the European Semester will provide additional safeguards to that effect.

Consistency with other Union policies

The proposal is consistent with and provides for complementarity and synergies with the other Union policies such as those pursued through the European Semester, which focuses on the "virtuous triangle" of boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies. Furthermore, the Programme builds upon the proposals made in the Reflection Paper on the Deepening of the Economic and Monetary Union⁵, and is in line with the 2017 State of the Union address (and the annexed Letter of Intent) made by President Juncker to the European Parliament on 13 September 2017, which outlined proposals for the deepening of the Economic and Monetary Union. The proposal can also contribute to the realisation of the European Pillar of Social Rights.

The reform delivery tool and the convergence facility were proposed by the Commission in its Communication of 6 December 2017⁶ as new budgetary instruments and part of a package of initiatives to deepen the Economic and Monetary Union.

The Programme is an effective way of providing support through both financial and technical means to Member States to implement structural reforms, which can in turn underpin the implementation of other Union policies. The reform process is complex, often politically costly, requires expertise on different areas simultaneously, and may have a cross-border impact. Union support under the Programme should contribute to enhancing the ability to undertake in-depth growth-enhancing reforms across a wide range of policy sectors across Member States with positive spillover impacts across the Union.

Consistency and coherence with other Union policies will be pursued, on one hand, through the appropriate regulatory provisions on complementary funding contained in the various legislative acts establishing the various Union programmes and Funds and, on the other hand, through an enhanced internal coordination among the services involved in Union policies having complementary aspects, with a view to reaping synergies and reinforcing each other. Furthermore, the Programme builds on the current experience of the SRSP.

⁵ Reflection Paper on Deepening the Economic and Monetary Union COM(2017) 291, 31 May 2017

⁶ Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank, new budgetary instruments for a stable euro area within the Union framework, COM(2017) 822 final

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

Legal basis

The proposal is based on Articles 175 (third paragraph) and 197(2) of the Treaty on the Functioning of the European Union.

Article 175 (third paragraph) TFEU provides that, if specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of Regions.

Article 197(2) TFEU provides that the Union may support the efforts of Member States to improve their administrative capacity to implement Union law, *inter alia*, through facilitating the exchange of information and supporting training schemes. No Member State shall be obliged to avail itself of such support. The European Parliament and the Council, acting under the ordinary legislative procedure are to establish the necessary measures to this end, excluding any harmonisation of the laws and regulations of the Member States.

In view of Articles 175 and 197 TFEU, the Programme is aimed to contribute to enhancing cohesion, competitiveness, productivity, growth, and employment, and, in this context, can decisively contribute to: (i) the completion of reforms of a structural nature aimed at improving the performance of the national economies and at promoting resilient economic and social structures in the Member States; (ii) strengthening the administrative capacity of the Member States in relation to challenges faced by institutions, governance, public administration, and economic and social sectors; and (iii) the completion of reforms of a structural nature that promote resilient economic and social structures and to strengthening the administrative capacity in the Member States, whose currency is not the euro and which have stated clear commitment and taken demonstrable steps to adopt the single currency within a given time-frame, in order to support preparation for participation in the euro area.

Subsidiarity (for non-exclusive competence)

The funding of the proposed activities through the envisaged Programme respects the principles of European added value and subsidiarity. Funding from the Union budget concentrates on activities whose objectives cannot be sufficiently achieved by the Member States alone ("necessity test"), and where the Union intervention can bring additional value compared to action of Member States alone.

The overall objectives of the Programme are the enhancement of cohesion, competitiveness, productivity, growth, and job creation. For that purpose, it should provide financial incentives for addressing challenges of a structural nature, and should help to strengthen the administrative capacity of the Member States insofar as their institutions and economic and social sectors are concerned.

The underlying logic of the Programme is such that it is provided on a voluntary basis. As a result, each Member State itself decides whether action at Union level is necessary, in light of the possibilities available at national, regional or local level. The implementation of reforms remains a national competence and the Member States are involved throughout the whole process in the reform delivery tool.

The implementation of structural reforms is a matter of common interest for the Union and the euro area, as reforms help strengthen the resilience not only of the economies concerned but also of the Union and the euro area as a whole.

As regards the reform delivery tool, the Programme is a direct response to the weak and uneven implementation of the structural reforms in Member States, in particular in relation to challenges identified in the European Semester. In that respect, the Commission is best placed to take the initiative at the Union level as it benefits from comprehensive country-specific knowledge about reform implementation in the Member States and has the expertise to determine, together with the Member States concerned, the important challenges that need to be addressed. The agreement on reform packages between the Commission and the Member State (as endorsed in an appropriate implementing act) will enhance national ownership, since the original proposal for reform commitments will emanate from the Member State concerned and will be a "home-grown", country-driven product. This also implies continuous policy dialogue between the Commission and the Member State concerned. The duration of this instrument over the whole of the next MFF ensures continuity in the reform efforts, so that Member States can decide on the appropriate time to apply for financial support.

As regards the technical support instrument (the continuation of the SRSP), the Commission is uniquely placed to take action at the Union level. Since the inception of the SRSP, it has established (and therefore already benefits from) a Union-wide database of expertise; it is in the best place to enable sharing of best practices; and it can create synergies to address reform efforts in various Member States and to address cross-country challenges. At the same time, the coordination of the support provided by the Commission ensures a comprehensive provision of expertise, sharing of good practices and support at various stages of the reform process. In addition, by developing synergies across Member States, the action at the Union level provides for a contribution to addressing cross-border or Union-wide challenges.

As regards the convergence facility, the latter aims to increase resilience of non-euro-area economies by fostering real convergence. The latter is crucial not only for those Member States but also for the prosperity of the Union as a whole and, in particular, for the smooth transition to and functioning of the euro area. In addition, the instrument brings targeted technical support for administrative capacity with respect to the preparation for membership in the euro area. Action at Union level is thus necessary to achieve that objective.

Those goals, namely addressing reforms challenges of structural nature, which will help strengthen the resilience of the economics concerned, of the Union and the euro area, and strengthening the administrative capacity of the Member States, cannot be achieved to a sufficient degree by the Member States acting alone, while the Union's intervention can bring an additional value by establishing a Programme that can incentivise financially and support technically the design and implementation of structural reforms in the Union.

Proportionality

The proposal complies with the proportionality principle in that it does not go beyond the minimum required in order to achieve the stated objective at European level and which is necessary for that purpose. The support to be provided under the three instruments, which constitute the Programme for the period 2021 to 2027, is to be based on a voluntary request stemming from the Member State itself. The voluntary character of the Programme and the consensual nature of the cooperation throughout the entire process constitute an additional guarantee for respecting the proportionality principle and for the development of mutual trust and cooperation between the Member States and the Commission.

Choice of the instrument

The goals described in the preceding sections cannot be reached through a harmonisation of legislations, or by voluntary action of the Member States. Only a regulation would allow them to be achieved.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

Ex-post evaluations/fitness checks of existing legislation

The reform delivery tool and the convergence facility are new proposals, which have therefore not yet been subject to ex-post evaluations/fitness checks.

The technical support instrument is a continuation of the existing 2017-2020 Structural Reform Support Programme, based on the Regulation (EU) 2017/825⁷ which entered into force on 20 May 2017. Implementation of the SRSP began with the adoption of the 2017 Annual Work Programme⁸ in September 2017 and has continued with the adoption of the 2018 Annual Work Programme⁹ in March 2018. In accordance with Article 16 of Regulation (EU) 2017/825, by mid-2019, the Commission will provide the European Parliament and the Council with an annual monitoring report on the implementation of the Programme and an independent evaluation report.

Even if, from a regulatory viewpoint, it is too soon to have a formal evaluation, some evidence exists from the earlier provision of technical support for structural reforms notably to Greece, under the Task Force for Greece (TFGR).

Task Force for Greece (TFGR)

The technical support for structural reforms provided to Greece by the Commission services, and coordinated by the TFGR, was subject to both internal and external evaluations, which provided useful lessons for the design of the Programme. The Commission is currently also carrying out an ex-post external evaluation of the technical support delivered to Greece.

The technical support provided under TFGR was subject to an evaluation carried out by an independent consultancy in July 2014.¹⁰ Overall, that evaluation concluded that technical assistance had contributed to the implementation of the reform programme in Greece in the areas of tax administration and central administration during the period

⁷ Regulation (EU) 2017/825 of the European Parliament and of the Council of 17 May 2017 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) 1305/2013, (OJ L 129, 19.5.2017, p.1)

⁸ Annex to Commission Implementing Decision on the adoption of the work programme for 2017 and on the financing of Structural Reform Support Programme and repealing Decision C(2017)3093, 2017, C(2017)5780 final

⁹ Annex to Commission Implementing Decision on the adoption of the work programme for 2017 and on the financing of Structural Reform Support Programme, 2018, C(2018) 1358 final

¹⁰ Alvarez & Marsal Taxand, Adam Smith International, "VC/2014/0002 "Preliminary Evaluation of the Technical Assistance provided to Greece in 2011-2013 in the areas of Tax Administration and Central Administration Reform", 2014

2011-2013. That conclusion was based on an assessment of the effectiveness, efficiency, relevance and sustainability of the assistance delivered and was largely confirmed by the responses of most of the stakeholders involved, who indicated that, in the absence of technical assistance delivered by the TFGR, the reforms undertaken would not have materialised.

In addition, a performance audit was conducted in 2015 by the European Court of Auditors to assess how effectively the TFGR had managed assistance to Greece and whether it had contributed positively to the process of reform implementation in Greece (limited to the economic adjustment programme). The Court of Auditors concluded that, overall, the TFGR had been successful in achieving its mandate – providing relevant technical assistance in areas covering almost the entire spectrum of public policy, which was largely in line with the conditions of the economic adjustment programme.

Some shortcomings were identified by the Court of Auditors, notably the lack of a dedicated budget, the lack of a comprehensive strategy and the lack of systematic monitoring of the results. Those shortcomings were subsequently addressed within the SRSS and in the design of the 2017-2020 SRSP.

Ex-ante evaluation and first experience of the Structural Reform Support Programme (SRSP)

Prior to the proposal for the SRSP in November 2015, which became Regulation (EU) 2017/825, the Commission carried out an ex-ante evaluation to assess the challenges and problems faced in relation to reform design and implementation in the Union, the possible solutions thereof, and therefore, in turn, the objectives of the SRSP and possible delivery mechanisms. The ex-ante evaluation concluded that the lack of reform implementation in the Member States limited the Union's capacity to respond to shocks, and notably limited the resilience of the EMU, which is necessary to ensure convergence among Member States and within their societies. According to the ex-ante evaluation, the main drivers of such challenges are limited administrative and institutional capacities and inadequate application and implementation of Union legislation.

Stakeholder consultations

For the purpose of the open public consultation under the better regulation requirements, the SRSP was included in the "cohesion cluster", which covered questions in the following areas: regional policy, employment and social affairs, social inclusion, vocational education and training, research and innovation, business and industry, energy, justice and fundamental rights, migration and asylum, transport, rural

development, digital economy and society, climate action, maritime affairs and fisheries, structural reforms, and youth.

In the relevant questionnaire, the current SRSP was not explicitly mentioned as one of the funding programmes under the "cohesion cluster"; therefore, the questions had only limited relevance for the design of the Programme. However, some of the results of the public consultation may still be relevant (i.e. the responses to questions specifically mentioning the implementation of (structural) reforms in the Member States).

In the context of the "EMU package" of 6 December 2017 on the deepening of the Economic and Monetary Union, the Commission announced the intention to create a new reform delivery tool for the period after 2020, to support the implementation of national reforms identified within the European Semester process of economic policy coordination, and the rollout of a pilot (through the amendment of the Common Provisions Regulation¹¹) to test that idea already during the current programming period. In this context, the Commission decided to organise technical workshops in each Member State. The purpose of the workshops was two-fold: to collect Member States' views and interest in the pilot of the reform delivery tool; and to gather ideas on the design of the future reform delivery tool and possible type of reforms that could benefit from this instrument.

The feedback received from the Member States on the reform deliver tool was included in the Impact Assessment as stakeholder consultation.

Collection and use of expertise

N/A

Impact assessment

The proposal is supported by an Impact Assessment. The impact assessment considered the option that the current ongoing Union programmes would continue in the post-2020 period in its present form. In a context of an unchanged European Semester process, the SRSP would continue to provide technical support to the Member States under the current limited financial resources and the Union funds would remain the only Union investment instruments providing financing for the implementation of some structural

¹¹ Regulation of the European Parliament and of the Council amending Regulation (EU) No 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 as regards support to structural reforms in Member States, COM/2017/0826 final - 2017/0336 (COD)

reforms and providing encouragement to some reforms through the existing linkages between the Union funds and the European Semester.

The existing instruments at Union level have not managed to provide sufficient incentives to substantially accelerate the undertaking and the pace of implementation of structural reforms. As a result, they have not managed to reduce vulnerability to shocks; nor do they provide targeted support for the implementation of reforms in the non-euro-area Member States. The Commission is therefore proposing a new instrument at Union level, which provides for the continuation of the SRSP, and adds financial incentives for encouraging the implementation of structural reforms through the envisaged reform delivery tool. In addition, a dedicated instrument targeting reforms in non-euro-area Member States, which have taken demonstrable steps towards adopting the single currency, is to be established to offer additional support for the implementation of reforms in prospective euro-area Member States and multiply the positive effects for non-euro-area Member States and the euro area as a whole. For this purpose, demonstrable steps would consist of a formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).

The impacts of the Programme will mainly depend on the reforms that Member States propose and implement in the context of the reform delivery tool, or on the type of support that they will ask for and make use of in the framework of the technical support instrument.

Overall, the Programme is expected to benefit Member States' economies, strengthen resilience to shocks and also bring positive spillovers to other Member States. It is therefore expected to generate, in the longer term, positive impacts for economic growth across the Union, and improve national fiscal positions and debt-to-GDP ratios. The Programme is also expected to have a positive effect on employment by stimulating job creation across the Union. That effect can be generated, for example, through reforms of the labour market, in particular those increasing the skills and qualifications of the labour force and the adaptation of skills to market needs. The Programme can also have positive effects on income distribution, active labour market policies, social inclusion and social protection, by fostering the realisation of the European Pillar of Social Rights. It can also support reforms in the public administration at large, and the fight against tax evasion and corruption, which severely affect citizens and businesses, and undermine good governance and economic development.

The Programme is expected to bring advantages in terms of low administrative burden. Financial contributions from the reform delivery tool will be disbursed in the form of financing not linked to cost, thus minimising administrative and transaction costs, both for the Commission and for the Member States. In order to minimise administrative burden of the reform delivery tool and provide for simplification, monitoring of implementation of milestones and targets will be carried out within the European Semester process.

Administrative procedures related to the three technical support instruments will remain very light – e.g. as regards the technical support instrument, the submission of requests will remain simple and the required information will be limited to a minimum.

The Regulatory Scrutiny Board reviewed the draft impact assessment and delivered a positive opinion with reservations on 22 May 2018¹². The issues raised by the Regulatory Scrutiny Board were addressed in the revised version of the Impact Assessment Staff Working Document. The rationale and adequacy of the allocation key of the reform delivery tool has been explained (also with an example). The scope of the reform delivery tool was further clarified. The impact assessment was also further developed to evaluate co-financing and partial frontloading as an alternative delivery mechanism. Clarifications were also provided regarding potential risks associated with this mechanism (in terms of moral hazard, volume, and suspension, cancellation and recovery procedures). A specific annex in the Impact Assessment Staff Working Document further details the changes made following the Regulatory Scrutiny Board's opinion.

Regulatory fitness and simplification

The proposal is not linked to the regulatory fitness and simplification exercise and does not have any costs of compliance for small and medium-sized enterprises or any other stakeholders. The Programme will be implemented via an electronic platform, which will be available for the Commission services and the Member States.

Fundamental rights

The proposal has a positive effect on the preservation and development of Union fundamental rights, assuming that the Member States request and receive support in related areas. For example, support in areas such as migration, labour markets and social insurance, healthcare, education, the environment, property, public administration and the judicial system can support Union fundamental rights such as dignity, freedom, equality, solidarity, citizens' rights and justice.

¹² <http://ec.europa.eu/transparency/regdoc/?fuseaction=ia>

4. BUDGETARY IMPLICATIONS

The financial envelope for the implementation of the Programme for the period 1 January 2021 to 31 December 2027 shall be EUR 25 billion (in current prices).

The indicative distribution of the aforementioned shall be: (i) up to EUR 22 billion for the reform delivery tool; (ii); up to EUR 840 million for the technical support instrument and (iii) up to EUR 2.16 billion for the convergence facility, of which up to EUR 2 billion for the financial support component and up to EUR 160 million for the technical support component. Where, by the end of 2023, an eligible Member State under the convergence facility has not taken demonstrable steps to adopt the single currency within a given time-frame, the amount available for that Member State under the financial support component of the convergence facility will be transferred to the reform delivery tool. The Commission will adopt a decision to that effect after having heard the position of the Member State concerned.

The legislative financial statement provides the appropriate explanations on the financial envelope.

5. OTHER ELEMENTS

Implementation plans and monitoring, evaluation and reporting arrangements

In order to monitor the performance of the Programme in delivering the specific objectives defined in Article 6 of the Regulation, some key performance indicators have been identified and will be collected periodically. The set of indicators has been defined at level of individual support actions in order to collect the appropriate micro-data to be aggregated at Programme level and the data will be collected by the Commission on the basis of a dedicated tool for monitoring - broken down by Member State and by policy area.

As regards the financial contributions (allocated under the reform delivery tool and under the financial support component of the convergence facility), specific output, result and impact indicators will be defined in each reform commitment plan agreed with the Member States, so that the completion of the milestones and targets will be set as a condition for receiving the financial contribution. For that purpose, Member States will include, in their annual reporting on progress, evidence on the progress made towards milestones and targets, and provide the Commission with access to the underlying data, including administrative data where relevant.

As regards the technical support instrument, specific result and impact indicators will be defined in relation to the concrete projects, with baselines and targets, in order to monitor the progress made towards the final targets and to evaluate the impact of the

implemented reforms. Those indicators will also be deployed under the technical support component of the convergence facility.

A mid-term evaluation and an ex-post evaluation will be carried out for each instrument with a view to assessing the effectiveness, efficiency, relevance, coherence and Union added value of the three instruments, aggregating the results into a cross-cutting evaluation of the overall Programme. Evaluations will be carried out in line with paragraphs 22 and 23 of the Interinstitutional Agreement of 13 April 2016¹³, where the three institutions confirmed that evaluations of existing legislation and policy should provide the basis for impact assessments of options for further action. Evaluations will include lessons learned to identify any deficiencies and/or problems or any potential to further improve the actions or their results and help maximise their exploitation and impact.

Evaluations will be carried out in a timely manner to feed into the decision-making process.

The mid-term evaluation of the Programme will be performed once sufficient information is available about its implementation, but no later than four years after the start of the programme implementation.

At the end of the implementation of the Programme, but no later than four years after the end of the period of application of the Regulation, a final evaluation of the Programme will be carried out by the Commission.

The Commission will communicate the conclusions of the evaluations accompanied by its observations, to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

Explanatory documents (for directives)

N/A

Detailed explanation of the specific provisions of the proposal

The Reform Support Programme is made up of three separate complementary instruments: (a) the reform delivery tool, which will provide financial incentives to Member States for the purpose of implementing structural reforms identified in the European Semester process (*Chapter II*); (b) the technical support instrument, which will support, with technical measures, Member States to carry out institutional, administrative and growth-sustaining structural reforms (*Chapter III*); and (c) the

¹³ Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making of 13 April 2016 (OJ L 123, 12.5.2016, p. 1–14)

convergence facility for euro-area membership support, which will provide additional support, both technical and financial, to Member States, whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame (*Chapter IV*) (Article 3).

The general objective of the Programme is the enhancement of cohesion, competitiveness, productivity, growth, and employment. For that purpose, it should provide financial incentives for addressing challenges of a structural nature, and should help to strengthen the administrative capacity of the Member States insofar as their institutions and economic and social sectors are concerned (Article 4).

Specific objectives of the Programme are set for each instrument of the Programme (Article 5). With regard to the reform delivery tool, they should consist of fulfilling concrete milestones and targets set out in relation to the completion of reform commitments, which would trigger the release of the financial incentives. With regard to the technical support instrument, they should consist of supporting the efforts of the national authorities in improving their administrative capacity to design, develop and implement reforms, including through exchange of good practices, appropriate processes and methodologies and more effective and efficient human-resources management. Those objectives should be pursued in all Member States, including - in the context of the convergence facility - those whose currency is not the euro and which have stated clear commitment and taken demonstrable steps towards adopting the single currency within a given time-frame.

For the three instruments, the scope of the application is a broad range of policy domains that include areas related to public financial and asset management, institutional and administrative reform, business environment, product, service and labour markets, education and training, sustainable development, public health, education and the financial sector (Article 6).

The overall financial envelope for the implementation of the Programme for the period 2021-2027 will be EUR 25 billion; this will be indicatively distributed among the three instruments as follows: EUR 22 billion for the reform delivery tool, EUR 840 million for the technical support instrument and EUR 2.16 billion for the convergence facility. In accordance with provisions contained in Regulation (EU) [CPR successor]¹⁴, Member States may request the transfer of up to 5% of programme financial allocations from the ERDF, the ESF+, the Cohesion Fund or the EMFF¹⁵ to this Programme. Transferred resources shall be implemented in accordance with the rules of this Programme and for the benefit of the Member State concerned (Article 7).

¹⁴ OJ C , , p. .

¹⁵ OJ C , , p. .

The Commission proposals for the 2021-2027 Multiannual Financial Framework set a more ambitious goal for climate mainstreaming across all EU programmes, with an overall target of 25% of EU expenditure contributing to climate objectives. The contribution of this programme to the achievement of this overall target will be tracked through an EU climate marker system at an appropriate level of disaggregation, including the use of more precise methodologies where these are available. The Commission will continue to present the information annually in terms of commitment appropriations in the context of the annual draft budget.

To support the full utilisation of the potential of the programme to contribute to climate objectives, the Commission will seek to identify relevant actions throughout the programme preparation, implementation, review and evaluation processes.

The reform delivery tool

The type of structural reforms eligible for funding under the reform delivery tool will cover reforms aimed at addressing challenges identified in the context of the European Semester of economic policy coordination, including those challenges identified in country-specific recommendations (Article 8).

Maximum amounts by Member State will be established. Those amounts should be calculated on the basis of the population of each Member State (Article 9). The allocation of funds under the reform delivery tool to the Member States will be made in stages. In the first stage lasting twenty months, half (EUR 11 billion) of the overall financial envelope of the reform delivery tool will be made available to Member States, during which they could receive up to their maximum allocation by submitting proposals for reform commitments. In the subsequent stage lasting until the end of the Programme (the second stage), a system of periodic calls will be set out by the Commission to allocate the remaining half (EUR 11 billion) of the overall financial envelope of the instrument, plus the unused amounts from the previous stage. Under each call of the second stage, all Member States will be invited to submit reform proposals concurrently, and could be awarded their maximum financial contribution on the basis of their reform proposals.

It is important to underline, at the outset, that the first call organised by the Commission during the second stage will be for an amount corresponding to the remaining half of the overall financial envelope of the instrument (i.e. EUR 11 billion), plus any unused amounts from the first stage of the allocation. Further calls would be organised by the Commission only where the overall financial envelope had not been fully used. In that respect, the Commission would adopt and publish an indicative calendar of the further calls to be organised, and should indicate, at each call, the remaining amount of the overall envelope, which would be available under the call

(Article 10). That approach responds to the need to provide transparency to the outside world about the amount and timing of such calls.

The proposal for reform commitments will be presented by the Member State together with its national reform programme, in the form of a separate annex. That separate annex could be submitted together with the national reform programme or at a different point in time.

The Member States themselves should identify the reforms among the challenges raised in the context of the European Semester and propose a detailed set of measures for their implementation, which should contain appropriate milestones and targets and a timetable for implementation over a period no longer than three years (Article 11). The proposal for reform commitments might be amended only once in the duration of the Programme, with such amendments being permitted if they are justified by objective circumstances (Article 13). The Commission will assess the nature and the importance of the reform commitments proposed by the Member States and will determine the amount to be allocated on the basis of, transparent criteria. The Commission should take into account the substantive elements provided by the Member States and assess: (i) whether the reform commitments proposed by the Member States are expected to effectively address the challenges identified in the context of the European Semester, (ii) whether they represent a comprehensive reform package, (iii) whether they are expected to strengthen the performance and resilience of the national economy, (iv) and whether their implementation is expected to have a lasting impact in the Member State. In addition, the Commission should also assess (v) whether the internal arrangements proposed by the Member States, including the proposed milestones and targets, and the related indicators, are expected to ensure an effective implementation of the reform commitments during a maximum period of three years (Article 11).

The Economic Policy Committee of the Council dealing with the European Semester may provide an opinion on the proposals for reform commitments as submitted by Member States (Article 11). The reform commitments to be implemented by the Member State will be determined by means of an implementing act (Commission decision) (Article 12). Appropriate guidelines are set out in an Annex to the Regulation, to serve as a basis for the Commission to assess - in a transparent and equitable manner - the proposals for reform commitments put forward by the Member States and to determine the financial contribution in conformity with the objectives and any other relevant requirements laid down in this Regulation. A rating system for the assessment of the proposals for reform commitments is established to that effect (Article 11, in conjunction with Annex II).

The Member State concerned will report regularly within the European Semester process on the progress made in the achievement of the reform commitments. The national reform programmes are to be used as a tool for reporting on progress towards reform completion (Article 14).

Provisions on durability of the reforms (minimum five years after the payment of the financial contribution), on budget commitments and payments as well as on suspension, cancellation and recovery of funds unduly paid are also laid down (Articles 15 and 16).

The technical support instrument

The technical support instrument under the Programme should continue to support the implementation of reforms undertaken at the initiative of the Member States, reforms in the context of economic governance processes or actions related to the implementation of Union law and Union policy priorities and reforms in relation to the implementation of economic adjustment programmes. The instrument should also provide technical support for the preparation and implementation of reforms to be undertaken under the other Programme instruments. The Commission will analyse the requests for support on the basis of urgency, breadth and depth of the problems identified, support needs in respect of the policy area concerned, analysis of socioeconomic indicators and general administrative capacity of the Member State.

Based on that analysis and taking into account the existing measures and actions financed by other Union funds or Union programmes, the Commission will come to an agreement with the Member State on the priority areas for support, the objectives, an indicative timeline, the scope of the support measures to be provided and the estimated global financial contribution, to be set out in a cooperation and support plan (Article 19).

The type of actions eligible for financing under the technical support instrument will include, among others, expertise related to policy advice and/or change, formulation of strategies and reform roadmaps, as well as to legislative, institutional, structural and administrative reforms; the provision of experts, including resident experts; capacity building and related supporting actions at all governance levels, also contributing to the empowerment of civil society (Article 18).

Member States should have the possibility of contributing, on a voluntary basis, to the budget of the technical support instrument under the Programme by transferring resources to it. The additional voluntary transfers may consist of contributions from programmed resources under the Union funds, transferred in accordance with the provisions of Regulation (EU) [successor of CPR] (Article 21).

The Commission will adopt work programmes in order to implement the technical support instrument under the Programme, by way of implementing acts, setting out the measures for the provision of technical support and all the elements required under the Financial Regulation¹⁶ (Article 23).

¹⁶ OJ C , , p. .

The convergence facility

An eligible Member State under the convergence facility should be a Member State that has taken demonstrable steps to adopt the single currency within a given time-frame. For that purpose, demonstrable steps would consist of a formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).

The type of actions financed under the convergence facility for euro-area membership support will include both technical and financial support actions (in addition to those already available under the two other instruments of the Programme) relevant for preparing for euro-area participation (Article 25 and Article 30). The financial and technical support components carried out under the convergence facility should follow the same rules and implementation process as the other instruments under the Programme.

A few additional rules are added as regards eligibility of reforms and actions with respect to the other two instruments. Those additional rules refer to fixing the maximum indicative allocation and to the proposals for reform commitments, requests for technical support, and the related assessment process. In addition, the Commission will also assess the relevance of the proposed reform commitments and the requested technical support in terms of preparing for participation in the euro area (Article 27 and Article 31).

Other provisions

Provision on communication activities vis-à-vis the European Parliament and the Council and vis-à-vis the general public are set out for the various instruments (Articles 17 and 20) as well as provisions on complementarity (Article 33), monitoring (Article 34), annual reports (Article 35) and evaluation (Article 36).

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the establishment of the Reform Support Programme

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty on the Functioning of the European Union, and in particular the third paragraph of Article 175 and Article 197(2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee¹⁷,

Having regard to the opinion of the Committee of the Regions¹⁸,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) In accordance with Articles 120 and 121 of the Treaty on the Functioning of the European Union ('the Treaty'), Member States are required to conduct their economic policies with a view to contributing to the achievement of the objectives of the Union and in the context of the broad guidelines that the Council formulates. The coordination of the economic policies of the Member States is therefore a matter of common concern.
- (2) Article 175 of the Treaty provides, inter alia, that Member States should coordinate their economic policies in such a way as to attain the objectives on economic social and territorial cohesion set out in Article 174.
- (3) At Union level, the European Semester of economic policy coordination is the framework to identify national reform priorities and monitor their implementation. Member States develop their own national multiannual investment strategies in support of those reform priorities. Those strategies should be presented alongside the yearly National Reform Programmes as a

¹⁷ OJ C , , p.

¹⁸ OJ C , , p.

way to outline and coordinate priority investment projects to be supported by national and/or Union funding. They should also serve to use Union funding in a coherent manner and to maximise the added value of the financial support to be received notably from the programmes supported by the Union under the European Regional Development Fund, the Cohesion fund, the European Social Fund, the European Maritime and Fisheries Fund and the European Agricultural Fund for Rural Development, the European Investment Stabilisation Function and InvestEU, where relevant.

- (4) The economic and financial crisis has shown that developing sound and resilient economies and financial systems built on strong economic and social structures helps Member States to respond more efficiently to shocks and recover more swiftly from them. The implementation of structural reforms is among the Union's policy priorities because such reforms seek to set the recovery on a sustainable path, unlock the growth potential, strengthen the adjustment capacity and support the process of upward convergence. Pursuing structural reforms can also contribute to strengthening economic and social cohesion, boosting productivity and investment and creating good conditions for sustainable growth and employment in the Union.
- (5) Structural reforms can contribute to achieving a high degree of resilience of domestic economies and sustainable convergence among Member States, which is crucial for successful and smooth participation in the Economic and Monetary Union. That high degree of sustainable convergence is particularly important for Member States, whose currency is not the euro, in their process of preparation to join the euro area.
- (6) The degree of implementation of structural reforms in the Member States is still not sufficient across the Union. Experience with the implementation of the economic policy coordination mechanism under the European Semester shows that, in general, the implementation of structural reforms has been slow and uneven and that national reform efforts should be reinforced and incentivised.
- (7) Regulation (EU) 2017/825 of the European Parliament and the Council¹⁹ established the Structural Reform Support Programme (SRSP) for the period 2017 to 2020, with a budget of EUR 142 800 000. The SRSP was established to strengthen the capacity of Member States to prepare and implement growth-sustaining administrative and structural reforms, including through assistance for the efficient and effective use of the Union funds. Technical

¹⁹ Regulation (EU) 2017/825 of the European Parliament and of the Council of 17 May 2017 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (OJ L 129, 19.5.2017, p. 1)

support under that programme is provided by the Commission, upon request from a Member State, and can cover a wide range of policy areas. Initial experience with the SRSP has shown a demand for technical support in the order of four times (in 2017) and five times (in 2018) its annual available budget.

- (8) Other Union instruments and programmes also provide a significant contribution to improving conditions underpinning certain investments in Member States, which can be conducive to or be part of such reforms. In particular, the Union Funds covered by Regulation (EU) No YYY/XX of the European Parliament and of the Council [CPR] link investment to enabling conditions (formerly known as ex-ante conditionalities), foresee a macroeconomic governance mechanism and may finance costs of structural reforms linked to investments in policy areas relevant for cohesion policy. However, currently, no instrument foresees direct financial support that provides incentives for the Member States to implement reforms in all policy areas, in response to challenges identified in the European Semester. Moreover, there is currently no instrument providing specific and targeted financial and technical support to Member States whose currency is not the euro in their efforts to implement reforms that are relevant for joining the euro area.
- (9) The Commission's Communication of 6 December 2017²⁰, part of a package of initiatives to deepen the Economic and Monetary Union, proposed to create a reform delivery tool and a convergence facility as new budgetary instruments. The objective of such instruments was to strengthen resilience of domestic economies and unleash positive spillover effects across Member States by providing incentives for the implementation of structural reforms that contribute to those objectives and are essential for the stability of the Economic and Monetary Union.
- (10) Against that background, it is necessary to strengthen the current framework for the provision of support to Member States by offering direct financial support, alongside technical support. To that end, a new Reform Support Programme ('the Programme') should be established to provide effective incentives to step up the implementation of structural reforms in the Member States. The Programme should be comprehensive and should also benefit from the experience gained by the Commission and the Member States from the use of the other instruments and programmes. The Programme should also continue the actions and the mode of operation of the SRSP, since they have

²⁰ Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank, new budgetary instruments for a stable euro area within the Union framework, COM(2017) 822 final

been proven very useful, and have been appreciated by Member States, for strengthening the administrative capacity of national authorities in various policy domains. The Programme should also include targeted support for reforms in Member States whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame.

- (11) In order to allow for the provision of the different types of support needed and to cater for the specificity of each component, three separate but complementary instruments should be set out within the framework of the Programme, namely a reform delivery tool, a technical support instrument, and a dedicated convergence facility for supporting preparation for euro-area membership.
- (12) The types of financing and the methods of implementation under this Regulation should be chosen on the basis of their ability to achieve the specific objectives of the actions and to deliver results, taking into account, in particular, the costs of controls, the administrative burden, and the expected risk of non-compliance. This should include consideration of the use of lump sums, flat rates and unit costs, as well as financing not linked to costs as referred to in Article 125(1) of the Financial Regulation.
- (13) The Programme's overall objective is the enhancement of cohesion, competitiveness, productivity, growth, and employment. For that purpose, it should provide financial incentives for addressing challenges of a structural nature, and should help to strengthen the administrative capacity of the Member States insofar as their institutions and economic and social sectors are concerned.
- (14) Specific objectives should be set for each instrument of the Programme. With regard to the reform delivery tool, they should consist of fulfilling concrete milestones and targets set out in relation to the completion of reform commitments, which would trigger the release of the financial incentives. With regard to the technical support instrument, they should be to assist national authorities in their endeavours to design and implement reforms, by taking into account good practices and lessons learned from peers. Those objectives should be pursued in all Member States under those two instruments and, in the context of the convergence facility, by those Member States whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame.
- (15) In order to ensure that the reforms supported by the Programme address all the key economic and societal areas, both financial support and technical support

under the Programme should be provided by the Commission, upon request from a Member State, in a broad range of policy domains, which include areas related to public financial and asset management, institutional and administrative reform, business environment, the financial sector, markets for products, services and labour, education and training, sustainable development, public health and social welfare.

- (16) This Regulation lays down a financial envelope for the Programme, which is to constitute the prime reference amount, within the meaning of the Interinstitutional Agreement on budgetary discipline, on cooperation in budgetary matters and on sound financial management²¹, for the European Parliament and the Council during the annual budgetary procedure. An appropriate indicative allocation of the overall amount of the budget should be set out for each of the three instruments of the Programme, and should be established at levels that are commensurate with their general and specific objectives and the corresponding needs.
- (17) In order to cater for additional needs under the Programme, Member States should have the possibility to transfer to the budget of the Programme resources programmed in shared management under the Union funds, in accordance with the procedure thereof. Transferred resources should be implemented in accordance with the rules of this Programme and should be used for the benefit of the Member State concerned.
- (18) Reflecting the importance of tackling climate change in line with the Union's commitments to implement the Paris Agreement and the United Nations Sustainable Development Goals, this Programme will contribute to mainstream climate actions and to the achievement of an overall target of 25 % of the EU budget expenditures supporting climate objectives. Relevant actions will be identified during the Programme's preparation and implementation, and reassessed in the context of the relevant evaluations and review processes.
- (19) With regard to the reform delivery tool, it is necessary to identify the types of reforms that should be eligible for financial support. To ensure their contribution to the objectives of the Programme, the eligible reforms should be those addressing the challenges identified in the context of the European Semester of economic policy coordination, including those proposed to address the country-specific recommendations.

²¹ Interinstitutional agreement between the European Parliament, the Council of the European Union and the European Commission on better law-making of 13 April 2016 (OJ L 123, 12.5.2016, p. 1–14)

- (20) In order to ensure a meaningful incentive for Member States to complete structural reforms, it is appropriate to establish a maximum financial contribution available for them under the instrument for each stage of allocation and under each call. That maximum contribution should be calculated on the basis of the population of Member States. To ensure that the financial incentives are spread throughout the whole period of application of the Programme, the allocation of funds to the Member States should be made in stages. In the first stage lasting twenty months, half (EUR 11 000 000 000) of the overall financial envelope of the reform delivery tool should be made available to Member States, during which they could receive up to their maximum allocation by submitting proposals for reform commitments.
- (21) In the interest of transparency and efficiency, in the subsequent stage lasting until the end of the Programme, a system of periodic calls should be set out by the Commission to allocate the remaining half (EUR 11 000 000 000) of the overall financial envelope of the instrument, plus the amounts unused from the previous stage. Simple procedures should be organised to that effect. Under each call, all Member States should be invited to submit reform proposals concurrently, and could be awarded their maximum financial contribution on the basis of their reform proposals. In the interest of transparency, the first call organised by the Commission during the second stage should be for an amount corresponding to the remaining part (EUR 11 000 000 000) of the overall financial envelope of the instrument. Further calls should be organised by the Commission only where the overall financial envelope has not been fully used. The Commission should adopt and publish an indicative calendar of the further calls to be organised, and should indicate, at each call, the remaining amount of the overall envelope, which is available under that call.
- (22) It is necessary to establish a process for the submission of proposals for reform commitments by the Member States, and the content thereof. With a view to ensuring the expediency of procedures, a Member State should submit the proposal for reform commitments together with its national reform programme, but in the form of a separate annex, which may also be submitted at a different point in time. While participation in the Programme is voluntary, Member States experiencing excessive imbalances should be particularly encouraged to come forward with reform proposals under the reform delivery tool, which address the problems that led to such excessive imbalances.
- (23) In order to ensure the ownership of and a focus on relevant reforms, the Member States should identify the reform commitments in response to challenges identified in the context of the European Semester (including those challenges identified in country specific recommendations) and propose a detailed set of measures for their implementation, which should contain

appropriate milestones and targets and a timetable for implementation over a maximum period of three years. Close cooperation between the Commission and the Member States should be sought and achieved throughout the process.

- (24) The Commission should assess the nature and the importance of the reform commitments proposed by the Member States and should determine the amount to be allocated on the basis of transparent criteria. To that effect, it should take into account the substantive elements provided by the Member States and assess whether the reform commitments proposed by the Member States are expected to effectively address challenges identified in the context of the European Semester, whether they represent a comprehensive reform package, whether they are expected to strengthen the performance and resilience of the national economy and whether their implementation is expected to have a lasting impact in the Member State where relevant by strengthening the institutional and administrative capacity of the Member State concerned. In addition, the Commission should assess whether the internal arrangements proposed by the Member States, including the proposed milestones and targets, and the related indicators, are expected to ensure effective implementation of the reform commitments during a maximum period of three years.
- (25) Appropriate guidelines should be set out, as an annex to this Regulation, to serve as a basis for the Commission to assess - in a transparent and equitable manner - the proposals for reform commitments put forward by the Member States and to determine the financial contribution in conformity with the objectives and any other relevant requirements laid down in this Regulation. In the interest of transparency and efficiency, a rating system for the assessment of the proposals for reform commitments should be established to that effect.
- (26) In order to contribute to the preparation of high quality proposals and assist the Commission in the assessment of the proposals for reform commitments submitted by the Member States and in the assessment of the degree of their achievement, provision should be made for the use of peer counselling and expert advice. In addition, the Council for Economic Policy Committee of the Council dealing with the European Semester, in consultation, where appropriate, with relevant Treaty-based committees, should be able to provide an opinion on the proposals for reform commitments as submitted by Member States. In the interest of simplification, the reporting by Member States on the progress made in the implementation of reform commitments should be made within the framework of the European Semester.
- (27) For the purpose of simplification, the determination of the financial contribution should follow simple criteria. The financial contribution should

be the total maximum indicative amount if the reform commitments proposed by the Member State fully meet the criteria for assessment, and should be half the maximum indicative amount if the reform commitments proposed by the Member State meet those criteria only in a satisfactory manner. No financial contribution should be awarded to the Member State if the proposal for reform commitments does not satisfactorily address the assessment criteria.

- (28) To foster the stability of the reform commitments, a Member State should have the possibility to amend the reform commitments only once within the period of implementation, where objective circumstances justify such a course of action.
- (29) For the purposes of transparency, the reform commitments adopted by the Commission should be communicated to the European Parliament and the Council and communication activities should be carried out by the Commission as appropriate.
- (30) For reasons of efficiency and simplification in the financial management of the instrument, the Union financial support to reform commitments should take the form of a financial contribution not linked to cost, as referred to in Article 121(1)(e) of the Regulation (EU, Euratom) YYY/XX of the European Parliament and of the Council²² (the 'Financial Regulation') under direct management.
- (31) For the purpose of sound financial management, specific rules should be laid down for budget commitments, payments, suspension, cancellation and recovery of funds. Payments should be based on a positive assessment by the Commission of the implementation of the reform commitments by the Member State. Suspension and cancellation of the financial contribution should be possible when the reform commitments have not been implemented in a satisfactory manner by the Member State. To ensure a sustainable impact of the reforms after they are implemented, a reasonable period defining the durability of the reforms after the payment of the financial contribution should be established. A period of five years should be considered to be a reasonable minimum to be applied. Appropriate contradictory procedures should be established to ensure that the decision by the Commission in relation to suspension, cancellation and recovery of amounts paid respects the right of Member States to provide observations.
- (32) With regard to the technical support instrument, Member States have increasingly taken up technical support under the SRSP, beyond initial expectations. Almost all Member States have requested support under the

²² OJ C , , p . .

SRSP and requests are distributed across all policy areas covered by that programme. For that reason, the main features of the SRSP should be maintained, including the actions eligible for financing under the technical support instrument.

- (33) The technical support instrument under the Programme should continue to support, the implementation of reforms undertaken at the initiative of the Member States, reforms in the context of economic governance processes or actions related to the implementation of Union law, and reforms in relation to the implementation of economic adjustment programmes. It should also provide technical support for the preparation and implementation of reforms to be undertaken under the other Programme instruments.
- (34) In line with the rules and practice already existing under the SRSP, a light process for the submission of requests for technical support should be established. Respecting the overarching principle of equal treatment, sound financial management and transparency, appropriate criteria for the analysis of the requests submitted by Member States should be laid down. Those criteria should be based on the urgency, the severity and extent of the problems, as well as on the support needs identified in respect of the policy areas where technical support is envisaged.
- (35) The content of the cooperation and support plans detailing the measures for the provision of technical support to Member States should also be specified. To that end, the technical support measures envisaged and the related estimated global financial contribution should take into account the actions and activities financed by Union funds or Union programmes.
- (36) For the purposes of accountability, transparency and to ensure visibility of the Union action, subject to certain conditions that protect sensitive information, the cooperation and support plans should be provided to the European Parliament and the Council and communication activities should be carried out by the Commission as appropriate.
- (37) Provisions on the implementation of the technical support instrument should be laid down, in particular the management modes, the forms of funding for the technical support measures and the content of work programmes, which should be adopted by way of implementing acts. In view of the importance of sustaining the efforts of Member States in pursuing and implementing reforms, it is necessary to allow for a co-financing rate for grants of up to 100% of the eligible costs. To allow for a rapid mobilisation of technical support in case of urgency, provision should be made for the adoption of special measures for a limited period of time. To that effect, a limited amount

of the budget within the work programme of the technical support instrument should be set aside for special measures.

- (38) The convergence facility should aim at providing both financial support and technical support to Member States (in addition to that already available under the two other instruments of the Programme), whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame, with a view to helping them prepare for membership in the euro area. To that effect, "demonstrable steps" should consist of a formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible, time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).
- (39) The instrument should be made up of two different components, which should aim to provide increased financial incentives for Member States that are embarking on and completing relevant structural reforms for joining the euro area, and should also aim to offer additional and targeted technical support for the design and implementation of such reforms.
- (40) In the interest of consistency and simplification, the financial and technical support components carried out under the convergence facility should follow the same rules and implementation process as the other instruments under the Programme. Therefore, relevant provisions relating to the reform delivery tool and the technical support instrument under the Programme should also apply to the relevant components of the convergence facility, complemented by certain specific rules.
- (41) As regards eligibility of reforms and actions, there should be some additional rules on fixing the maximum indicative allocation, and on the proposals for reform commitments, requests for technical support, and the related assessment process. In particular, under the financial support component of the convergence facility, an additional financial contribution should be available for allocation to the eligible Member States over and above the financial contribution to be allocated under the reform delivery tool, which should be granted in return for additional reforms undertaken by the Member State concerned.
- (42) In order to ensure an efficient and coherent allocation of funds from the Union budget and to respect the principle of sound financial management, actions

under the Programme should be consistent with and be complementary to ongoing Union programmes, whilst avoiding double funding for the same expenditure. In particular, the Commission and the Member State should ensure, in all stages of the process, effective coordination in order to safeguard the consistency, coherence, complementarity and synergy among sources of funding, including technical assistance thereof.

- (43) Pursuant to paragraphs 22 and 23 of the Inter-institutional agreement for Better Law-Making of 13 April 2016, there is a need to evaluate this Programme on the basis of information collected through specific monitoring requirements, while avoiding overregulation and administrative burdens, in particular on Member States. These requirements, where appropriate, should include measurable indicators, as a basis for evaluating the effects of the Programme on the ground.
- (44) An independent mid-term evaluation, looking at the achievement of the objectives of the Programme, the efficiency of the use of its resources and its added value should be carried out. An independent ex-post evaluation should, in addition, deal with the long-term impact of the Programme.
- (45) The reform commitments to be implemented by the Member States, the determination of the financial contribution from the budget of the Programme allocated to them, and the work programmes for the implementation of technical support should be established. In order to ensure uniform conditions for the implementation of this Regulation, implementing powers should be conferred on the Commission.
- (46) Horizontal financial rules adopted by the European Parliament and the Council on the basis of Article 322 of the Treaty on the Functioning of the European Union apply to this Regulation. These rules are laid down in the Financial Regulation and determine in particular the procedure for establishing and implementing the budget through grants, procurement, prizes, indirect implementation, and provide for checks on the responsibility of financial actors. Rules adopted on the basis of Article 322 TFEU also concern the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States, as the respect for the rule of law is an essential precondition for sound financial management and effective EU funding.
- (47) In accordance with the Financial Regulation, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council²³, Council

²³ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No

Regulation (Euratom, EC) No 2988/95²⁴, Council Regulation (Euratom, EC) No 2185/96²⁵ and Council Regulation (EU) 2017/1939²⁶, the financial interests of the Union are to be protected through proportionate measures, including the prevention, detection, correction and investigation of irregularities and fraud, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, the imposition of administrative sanctions. In particular, in accordance with Regulation (EU, Euratom) No 883/2013 and Regulation (Euratom, EC) No 2185/96, the European Anti-Fraud Office (OLAF) may carry out administrative investigations, including on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union. In accordance with Regulation (EU) 2017/1939, the European Public Prosecutor's Office (EPPO) may investigate and prosecute fraud and other criminal offences affecting the financial interests of the Union as provided for in Directive (EU) 2017/1371 of the European Parliament and of the Council²⁷. In accordance with the Financial Regulation, any person or entity receiving Union funds is to fully cooperate in the protection of the Union's financial interests, to grant the necessary rights and access to the Commission, OLAF, the EPPO and the European Court of Auditors and to ensure that any third parties involved in the implementation of Union funds grant equivalent rights to the Commission, OLAF, the EPPO and the European Court of Auditors.

- (48) Since the objectives of this Regulation cannot be sufficiently achieved by the Member States alone, but can rather be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond that which is necessary to achieve that objective

1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999, (OJ L248, 18.9.2013, p. 1)

²⁴ Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.95, p.1)

²⁵ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L292, 15.11.96, p.2)

²⁶ Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO') (OJ L283, 31.10.2017., p.1)

²⁷ Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (OJ L 198, 28.7.2017, p. 29)

- (49) This Regulation should not affect the continuation and modification of support measures approved by the Commission on the basis of Regulation (EU) 2017/825 or any other Union act applying to that assistance by 31 December 2020. Measures approved under Regulation (EU) 2017/825 should therefore remain valid. To that effect, a transitional provision should also be laid down,

HAVE ADOPTED THIS REGULATION:

CHAPTER I

General provisions

Article 1

Subject matter

This Regulation establishes the Reform Support Programme (‘the Programme’).

It lays down the objectives of the Programme, the budget for the period 2021 – 2027, the forms of Union funding and the rules for providing such funding.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

1. ‘technical support’ means measures that help Member States to carry out institutional, administrative and growth-sustaining structural reforms, including measures that help Member States, whose currency is not the euro, to prepare for participation in the euro area;
2. ‘financial support’ means a financial contribution to a Member State for the purpose of the implementation of structural reforms identified in the context of the European Semester process in accordance with Article 2-a of Council Regulation (EC) No 1466/97²⁸, and for the purpose of implementation of reforms that are relevant for preparation for participation in the euro area;

²⁸ Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1)

3. ‘national authority’ means one or more public authority at the level of government, including those at regional and local levels[, as well as Member State organisations pursuant to [Article 2(42)] of the Financial Regulation, cooperating in a spirit of partnership in accordance with the Member States’ institutional and legal framework;
4. ‘Union funds’ means the funds covered by Regulation (EU) YYY/XX of the European Parliament and of the Council [CPR successor]²⁹;
5. ‘international organisation’ means an organisation within the meaning of Article 156 of the Financial Regulation, and organisations assimilated with such an international organisation pursuant to that Article; and
6. ‘eligible Member State’, under the convergence facility, means a Member State, whose currency is not the euro and which has taken demonstrable steps towards adopting the single currency within a given time-frame, in its preparation to join the euro area. Demonstrable steps shall consist of a formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).

Article 3

Structure of the Programme

The Programme shall be made up of the following instruments:

- a) the reform delivery tool;
- b) the technical support instrument; and
- c) the convergence facility for euro-area membership preparation.

²⁹ OJ C , , p. .

Article 4

General objectives

The Programme shall support the following general objectives, in all Member States:

- a) to contribute to addressing national reform challenges of a structural nature aimed at improving the performance of the national economies and at promoting resilient economic and social structures in the Member States, thereby contributing to cohesion, competitiveness, productivity, growth and employment; and
- b) to contribute to strengthening the administrative capacity of the Member States in relation to challenges faced by institutions, governance, public administration, and economic and social sectors.

Article 5

Specific objectives

1. To achieve the general objectives set out in Article 4, the Programme shall have specific objectives, which shall be pursued in close cooperation with the Member States concerned.
2. The Programme has the following specific objectives:
 - a) as regards the reform delivery tool, the Programme shall provide Member States with financial incentives with a view to achieving the milestones and targets of the structural reforms as set out in the reform commitments entered into by Member States with the Commission.
 - b) as regards the technical support instrument, the Programme shall support the efforts of the national authorities in improving their administrative capacity to design, develop and implement reforms, including through exchange of good practices, appropriate processes and methodologies and a more effective and efficient human resources management;
 - c) as regards the convergence facility for euro-area membership preparation the Programme shall:
 - (i) provide financial incentives to eligible Member States to help them achieve the milestones and targets of reforms that are

relevant for preparation for euro-area participation, as set out in the reform commitments entered into by Member States with the Commission; and

- (ii) support the efforts of national authorities of eligible Member States in improving their administrative capacity to design, develop and implement reforms relevant for preparation for euro-area participation, including through exchange of good practices, appropriate processes and methodologies and more effective and efficient human resources management.

Article 6

Scope

The general and the specific objectives set out in Articles 4 and 5 shall refer to policy areas related to cohesion, competitiveness, productivity, research and innovation, smart, sustainable, and inclusive growth, jobs and investment, and in particular to one or more of the following:

- a) public financial and asset management, budget process, debt management and revenue administration and policies aimed at combating tax evasion;
- b) institutional reform and efficient and service-oriented functioning of public administration and e-government, including, where appropriate, through the simplification of rules, effective rule of law, reform of the justice systems and reinforcement of the fight against fraud, corruption and money laundering;
- c) business environment, including for small and medium-sized enterprises, re-industrialisation, private sector development, product and service markets, investment, public participation in enterprises, privatisation processes, trade and foreign direct investment, competition and public procurement, sustainable sectoral development and support for research and innovation and digitisation;
- d) education and training, labour market policies, including social dialogue, for the creation of jobs, digital skills, the fight against poverty, the promotion of social inclusion, social security and social welfare systems, public health and healthcare systems, as well as cohesion, asylum, migration and border policies;
- e) policies for implementing climate action, mobility, promoting energy and resource efficiency, renewable energy sources, achieving energy

diversification and ensuring energy security, and for the agricultural sector, fisheries and the sustainable development of rural areas; and

- f) financial sector policies, including: the promotion of financial literacy, financial stability, access to finance and lending to the real economy; and production, provision and quality monitoring and reporting of data and statistics.

Article 7

Budget

1. The financial envelope for the implementation of the Programme for the period 2021-2027 shall be EUR 25 000 000 000 in current prices.
2. The indicative distribution of the amount referred to in paragraph 1 shall be:
 - a) up to EUR 22 000 000 000 for the reform delivery tool;
 - b) up to EUR 840 000 000 for the technical support instrument;
 - c) up to EUR 2 160 000 000 for the convergence facility, of which:
 - (i) up to EUR 2 000 000 000 for the financial support component; and
 - (ii) up to EUR 160 000 000 for the technical support component.

Where, by the 31 December 2023, under the convergence facility, a non-euro-area Member State has not taken demonstrable steps to adopt the single currency within a given time-frame, the maximum amount available for that Member State under the financial support component of the convergence facility pursuant to Article 26 shall be reallocated to the reform delivery tool referred to in point (a) of the first subparagraph of this paragraph. The Commission shall adopt a decision to that effect after having given the Member State concerned the possibility to present its observations within a period of two months of the communication of its conclusions.

3. The financial envelope for the Programme may also cover expenses pertaining to preparatory, monitoring, control, audit and evaluation activities, which are required for the management of the Programme and the achievement of its objectives, in particular studies, meetings of experts,

information and communication actions, including corporate communication of the political priorities of the Union, in so far as they are related to the objectives of this Regulation, expenses linked to IT networks focusing on information processing and exchange, including corporate information technology tools, and all other technical and administrative assistance expenses incurred by the Commission for the management of the Programme. Expenses may also cover, under each of the three instruments referred to in Article 3, the costs of other supporting activities such as quality control and monitoring of technical support projects on the ground and the costs of peer counselling and experts for the assessment and implementation of structural reforms.

4. Resources allocated to Member States under shared management may, at their request, be transferred to the Programme. The Commission shall implement those resources directly in accordance with point (a) of Article 62(1) of the Financial Regulation or indirectly in accordance with point (c) of that Article. Where possible those resources shall be used for the benefit of the Member State concerned.

CHAPTER II **Reform Delivery Tool**

Article 8

Eligible reforms

Pursuant to the objectives set out in point (a) of Article 4 and point (a) of Article 5(2), structural reforms eligible for financing under the Programme shall be those reforms aimed at addressing challenges identified in the context of the European Semester of economic policy coordination.

Article 9

Maximum financial contribution

Annex I lays down a maximum financial contribution available for each Member State out of the overall envelope of the reform delivery tool referred to in point (a) of Article 7(2). Such a maximum financial contribution is calculated for each Member State using the criteria and methodology set out in that Annex, based on the population of each Member State. Such a maximum financial contribution shall be available for allocation to each Member State, in part or in full, at each stage and call of the allocation process set out in Article 10.

Article 10

Allocation process and calls

1. The allocation process of the maximum financial contribution available for each Member State, referred to in Article 9, shall take place in stages and calls. For each stage and at each call, Member States may propose to receive up to the full amount of the maximum financial contribution, referred to in Article 9, to fulfil reform commitments proposed in accordance with Article 11.
2. For a period of twenty months from the date of application of this Regulation, the Commission shall make available for allocation EUR 11 000 000 000, which represents 50% of the overall envelope referred to in point (a) of Article 7(2). Each Member State may propose to receive up to the full amount of the maximum financial contribution, referred to in Article 9, to fulfil reform commitments proposed in accordance with Article 11.
3. For the period starting after the end of the period referred to in paragraph 2, the Commission shall make available for allocation EUR 11 000 000 000, which represent the remaining 50% of the overall envelope for the reform delivery tool referred to in point (a) of Article 7(2), plus the amount that has not been allocated in accordance with paragraph 2, on the basis of calls organised and published under the reform delivery tool. The first call shall be for allocating EUR 11 000 000 000.
4. Where, after the first call referred to in paragraph 3, the available overall envelope referred to in point (a) of Article 7(2) has not been fully allocated pursuant to paragraphs 2 and 3, the Commission shall organise further calls. To that effect, it shall adopt and publish an indicative calendar of the further calls to be organised in that period, and shall indicate, at each call, the remaining amount of the overall envelope referred to in point (a) of Article 7(2).
5. Should the remaining amount referred to in paragraph 4 not be sufficient to cover the financial contributions to Member States having submitted a proposals under a call, as determined in accordance with Article 12, the allocations to the Member States concerned shall be adjusted proportionally in accordance with the method set out in Annex I.

Article 11

Proposal for reform commitments

1. A Member State wishing to receive support under the reform delivery tool shall submit a proposal for reform commitments to the Commission. That proposal shall set out a detailed set of measures for the implementation of structural reforms in response to challenges identified in the European Semester process and shall contain milestones, targets and a timetable for the implementation of the reforms over a maximum period of three years.
2. The proposal for reform commitments shall be presented by the Member State concerned together with its national reform programme, in the form of a separate annex. That separate annex may be submitted together with the national reform programme or at a different point in time.
3. The proposal for reform commitments shall be duly reasoned and substantiated. It shall in particular set out the following elements:
 - a) the nature and importance of the structural reform proposed in the context of the challenges identified in European Semester;
 - b) the expected economic and social impacts of the reform in the Member State concerned and, where possible, the spillover effects in other Member States;
 - c) the accompanying measures that may be needed;
 - d) possible investment costs related to the reforms, including information on existing or planned Union financing of those costs;
 - e) the internal arrangements for the effective implementation of the reform commitments by the Member State concerned, including the proposed milestones and targets, and the related indicators; and
 - f) any other relevant information.
4. In the preparation of high-quality proposals for reform commitments, peer counselling may be organised by the Commission in order to allow the requesting Member States to benefit from the experience of other Member States.

5. When assessing the proposal for reform commitments, the Commission shall act in close cooperation with the Member State concerned. The Commission may make observations or seek additional information. The Member State concerned shall provide the requested additional information and may revise the proposal if needed, prior to its official submission.
6. When assessing the proposal for reform commitments and in the determination of the amount to be allocated to the Member State concerned, the Commission shall take into account the justification and the elements provided by the Member State concerned, as referred to in paragraph 3, and any other relevant information.
7. The Commission shall assess the nature and importance of the proposal for reform commitments, and, for that purpose, shall take into account the following criteria:
 - (a) whether the reform commitments:
 - (i) are expected to effectively address challenges identified in the context of the European Semester, namely:
 - in the country-specific recommendations and in other relevant European Semester documents officially adopted by the Commission; or
 - where applicable, in the Macroeconomic Imbalance Procedure laid down by Regulation (EU) 1176/2011 of the European Parliament and of the Council³⁰;
 - (ii) represent a comprehensive reform package;
 - (iii) (are expected to strengthen the performance and resilience of the economy of the Member State concerned;
 - (iv) re expected, through their implementation, to have a lasting impact, where relevant by strengthening the institutional and administrative capacity of the Member State concerned; and
 - (b) whether the internal arrangements proposed by the Member States concerned are expected to ensure an effective implementation of the reform

³⁰ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p.25)

commitments during a maximum period of three years, including the proposed milestones and targets, and the related indicators.

The assessment criteria referred to in this paragraph shall be applied in accordance with the guidelines established in Annex II.

8. For the purpose of the assessment of the proposals for reform commitments submitted by Member States, the Commission may be assisted by experts.
9. The Economic Policy Committee, set up by Council decision 2000/604/EC on the Composition and Statutes of the Economic Policy Committee³¹, may provide its opinion on the proposals for reform commitments submitted by Member States.

Article 12

Commission decision

1. The Commission shall adopt a decision within four months of the official submission of the proposal by the Member State, by means of an implementing act. In the event that the Commission gives a positive assessment to a proposal for reform commitments submitted by the Member State, that decision shall set out the reform commitments to be implemented by the Member State, including the milestones and targets and the financial contribution allocated in accordance with Article 10.

The financial contribution shall complement other measures or operations supported by Union funds, pursuant to Article 33.

2. The financial contribution referred to in paragraph 1 shall be determined taking into account the nature and importance of the reforms proposed by the Member State concerned, as assessed on the basis of the criteria set out in Article 11(7), on the basis of the guidelines established in Annex II, and in accordance with the following criteria:
 - a) where the proposal for reform commitments submitted by the Member State concerned complies fully with the criteria set out in Article 11(7), the reform commitments shall be considered to be "major", and the total amount of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned;

³¹ Council Decision of 29 September 2000 on the composition and the statutes of the Economic Policy Committee (2000/604/EC) (OJ L 257, 11.10.2000, p. 28–31)

- b) where the proposal for reform commitments by the Member State concerned complies satisfactorily with the criteria set out in Article 11(7), the reform commitments shall be considered to be "significant", and half of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned; and
 - c) where the proposal for reform commitments by the Member State concerned does not comply satisfactorily with the criteria set out in Article 11(7), no financial contribution shall be allocated to the Member State concerned.
3. The decision referred to in paragraph 1 shall lay down the financial contribution to be paid in one instalment once the Member State has satisfactorily implemented all the milestones and targets identified in relation to the implementation of each reform commitment.

The decision shall lay down the period for implementation of the reform commitments, which shall be no later than three years after the adoption of the decision. It shall also establish: the detailed arrangements and timetable for implementation of the reform commitments and reporting thereon by the Member State concerned within the European Semester process; the relevant indicators relating to the fulfilment of the milestones and targets; and the modality for providing access by the Commission to the underlying relevant data.

4. Where the Commission gives a negative assessment to a proposal for reform commitments submitted by a Member State, it shall communicate that assessment within four months of the official submission of the proposal for reform commitments by the Member State.

Article 13

Amendment of the reform commitments

1. Where the reform commitments, including relevant milestones and targets, are no longer achievable, either partially or totally, by the Member State concerned because of objective circumstances, the Member State concerned may make a reasoned request to the Commission to amend or replace the decision referred to in Article 12(1). To that effect, the Member State may propose a modified set or a new set of reform commitments.
2. Where the Commission considers that the reasons put forward by the Member State concerned justify an amendment of the reform commitments,

the Commission shall assess the new proposal in accordance with the provisions of Article 11 and shall take a new decision in accordance with Article 12 within four months of the official submission of the request.

3. Where the Commission considers that the reasons put forward by the Member State concerned do not justify an amendment of the reform commitments, it shall reject the request within four months of its official submission, after having given the Member State concerned the possibility to present its observations within a period of one month of the communication of the Commission's conclusions.
4. An amendment of the reform commitments can be made only once within the period of implementation set out in the decision referred to in Article 12(1).

Article 14

Reporting by the Member State in the European Semester

Without prejudice to the second subparagraph of Article 12(3), the Member State concerned shall report regularly within the European Semester process on the progress made in the achievement of the reform commitments. To that effect, Member States are invited to use the content of the national reform programmes as a tool for reporting on progress towards reform completion. The detailed arrangements and timetable for reporting, including the modality for providing access by the Commission to the underlying relevant data, shall be laid down in the decision referred to in Article 12(1).

Article 15

Rules on payments, suspension and cancellation of financial contributions

1. A financial contribution provided to a Member State under the reform delivery tool shall take the form of financing not linked to cost referred to in point (a) of Article 125(1) of the Financial Regulation; it shall be managed in line with the rules for direct management set out in that Regulation, and shall not require national co-financing.
2. The decision referred to in Article 12(1) shall constitute an individual legal commitment within the meaning of the Financial Regulation, which may be based on global commitments. Budgetary commitments may be broken down into annual instalments spread over several years.

3. Payment of financial contributions to the Member State concerned under this Article shall be made in accordance with the budget appropriations and subject to the available funding.
4. Upon completion of the reform commitments, the Member State concerned shall submit to the Commission a duly justified request for payment of the financial contribution. The Commission shall assess, within two months of the submission of the request, whether the relevant milestones and targets set out in the decision referred to in Article 12(1) have been satisfactorily implemented. For that purpose, it may be assisted by relevant experts as referred to in Article 11(8).

Where the assessment has a positive outcome, the disbursement of the financial contribution shall be made in accordance with the Financial Regulation.

5. Where, as a result of the assessment referred to in paragraph 4, the Commission has established that the milestones and targets set out in the decision referred to in Article 12(1) have not been satisfactorily implemented, the payment of all or part of the financial contribution shall be suspended. The Member State concerned shall have the possibility to present its observations within a period of one month of the communication of the Commission's assessment.

The suspension shall be lifted where the Member State has taken the necessary measures to ensure a satisfactory implementation of the milestones and targets referred to in Article 12(1).

6. By derogation from Article 116(2) of the Financial Regulation, the payment deadline shall start running from the date of the communication of the positive outcome to the Member State pursuant to the second subparagraph of paragraph 4, or from the date of the communication of the lifting of a suspension pursuant to the second subparagraph of paragraph 5.
7. Where the Member State concerned has not taken the necessary measures within a period of six months from the suspension, the Commission shall cancel the amount of the financial contribution pursuant to Article 14(1) of the Financial Regulation after having given the Member State concerned the possibility to present its observations within a period of two months from the communication of its conclusions.
8. Where, within eighteen months of the date of the adoption of the reform commitments established in the decision referred to in Article 12(1), no

tangible progress has been made in respect of any relevant milestones and targets by the Member State concerned, the amount of the financial contribution shall be cancelled pursuant to Article 14(1) of the Financial Regulation. No tangible progress shall mean that the Member State has not respected the timetable referred to in Article 12(3).

The Commission shall take a decision on the cancellation after having given the Member State concerned the possibility to present its observations within a period of two months of the communication of its conclusions.

Article 16

Durability of reforms

1. A Member State shall repay to the Commission any financial contribution paid to it pursuant to Article 15 with respect to a reform commitment, where, within five years of the payment, the conditions that allowed such payments have changed significantly in the Member State concerned.
2. The following cases shall represent a significant change in the conditions that allowed the payment:
 - a) the elements that led to the achievement of the reform commitments were reversed; or
 - b) the elements that led to the achievement of the reform commitments were significantly modified by other measures.
3. The Commission shall take a decision on the repayment after having given the Member State concerned the possibility to present its observations within a period of two months of the communication of its conclusions.

Article 17

Information to the European Parliament and the Council and communication on the reform commitments

1. The Commission shall transmit the reform commitments referred to in Article 12 to the European Parliament and the Council without undue delay.
2. Where the Member State concerned has granted its consent, the Commission may engage in communication activities to ensure the visibility

of the Union funding for the financial support envisaged in the reform commitment package.

CHAPTER III

Technical support instrument

Article 18

Eligible actions for technical support

Pursuant to the objectives set out in point (b) of Article 4 and point (b) of Article 5(2), the technical support instrument shall finance, in particular, the following types of action:

- a) expertise related to policy advice, policy change, formulation of strategies and reform roadmaps, as well as to legislative, institutional, structural and administrative reforms;
- b) the short-term or long-term provision of experts, including resident experts, to perform tasks in specific domains or to carry out operational activities, where necessary with interpretation, translation and cooperation support, administrative assistance and infrastructure and equipment facilities;
- c) institutional, administrative or sectoral capacity building and related supporting actions at all governance levels, also contributing to the empowerment of civil society, as appropriate, in particular:
 - (i) seminars, conferences and workshops;
 - (ii) working visits to relevant Member States or third countries to enable officials to acquire or increase their expertise or knowledge in relevant matters; and
 - (iii) training actions and the development of online or other training modules to support the necessary professional skills and knowledge relating to the relevant reforms;
- d) collection of data and statistics, development of common methodologies and, where appropriate, indicators or benchmarks;
- e) organisation of local operational support in areas such as asylum, migration and border control;

- f) IT capacity building, including expertise related to development, maintenance, operation and quality control of the IT infrastructure and applications needed to implement the relevant reforms, as well as expertise related to programmes geared towards the digitalisation of public services;
- g) studies, research, analyses and surveys, evaluations and impact assessments, and the development and publication of guides, reports and educational material;
- h) communication projects for learning, cooperation, awareness raising, dissemination activities and exchange of good practices; organisation of awareness-raising and information campaigns, media campaigns and events, including corporate communication and communication, where appropriate, through social networks; and
- i) compilation and publication of materials to disseminate information and the results of the Programme, including through the development, operation and maintenance of systems and tools using information and communication technologies.

Article 19

Request for technical support

1. A Member State wishing to receive technical support under this instrument shall submit a request for technical support to the Commission, identifying the policy areas and the priorities for support within the scope of the Programme as set out in Article 6. The Commission shall organise calls under the technical support instrument, which will set appropriate deadlines for the submission of requests. The Commission may provide guidance on the main elements to be included in the request for support.
2. Members States may submit a request for technical support in the following circumstances linked to:
 - a) the implementation of reforms by Member States, undertaken on their own initiative, in particular to achieve sustainable economic growth and job creation;
 - b) the implementation of economic adjustment programmes for Member States that receive Union financial assistance under existing instruments, in particular in accordance with Regulation (EU) No 472/2013 of the

European Parliament and of the Council³² as regards the Member States whose currency is the euro and Council Regulation (EC) No 332/2002³³ as regards Member States whose currency is not the euro;

- c) the implementation of growth-sustaining reforms in the context of economic governance processes, in particular the country-specific recommendations issued in the context of the European Semester or actions related to the implementation of Union law;
 - d) the preparation of a proposal for reform commitments and the implementation of the reform commitments undertaken by Member States;
 - e) the implementation of reforms, which are relevant for preparation for euro-area membership for Member States, whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame.
3. Taking into account the principles of transparency, equal treatment and sound financial management, and further to a dialogue with the Member State, including in the context of the European Semester, the Commission shall analyse the request for support referred to in paragraph 1 based on the urgency, breadth and depth of the problems identified, support needs in respect of the policy areas concerned, analysis of socioeconomic indicators and general administrative capacity of the Member State.

Based on that analysis, and taking into account the existing actions and measures financed by Union funds or other Union programmes, the Commission shall come to an agreement with the Member State concerned on the priority areas for support, the objectives, an indicative timeline, the scope of the support measures to be provided and the estimated global financial contribution for such technical support, which shall be set out in a cooperation and support plan.

4. The cooperation and support plan referred to in paragraph 3 shall identify, separately from other technical support, the measures linked to preparation for euro-area membership pursuant to Article 32. The plan shall also

³² Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1)

³³ Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p. 1)

identify separately the measures linked to the reform commitments undertaken by the Member States pursuant to Articles 13 and 29.

Article 20

Information to the European Parliament and the Council and communication on the cooperation and support plans

1. The Commission shall transmit, with the consent of the Member State concerned, the cooperation and support plan to the European Parliament and the Council without undue delay. The Member State concerned may refuse to give such consent in the case of sensitive or confidential information, the disclosure of which would jeopardise public interests of the Member State.
2. Notwithstanding the provisions of paragraph 1, the Commission shall transmit the cooperation and support plan to the European Parliament and the Council in the following circumstances:
 - a) as soon as the Member State concerned has redacted all sensitive or confidential information, the disclosure of which would jeopardise public interests of the Member State;
 - b) after a reasonable period of time, when the disclosure of relevant information would not adversely affect the implementation of the support measures under the Programme, and in any case no later than two months after the delivery of such measures under the cooperation and support plan
3. The Commission may engage in communication activities to ensure the visibility of the Union funding for the support measures envisaged in the cooperation and support plans.

Article 21

Other financial contributions to the technical support instrument

1. In addition to the financial envelope set out in points (b) and c(ii) of Article 7(2), the technical support budget under the Programme may be financed through additional voluntary contributions from Member States.
2. The additional voluntary contributions referred to in paragraph 1 may consist of contributions made in accordance with Article 100 of Regulation

[CPR successor], and pursuant to the procedure set out in that Article, as referred to in Article 7(4).

Article 22

Complementary funding

Actions financed under the technical support instrument may receive support from other Union programmes, instruments or funds under the Union's budget provided that such support does not cover the same cost.

Article 23

Implementation of the technical support instrument

1. The Commission shall implement the technical support instrument under the Programme in accordance with the Financial Regulation.
2. The measures of the technical support instrument under the Programme may be implemented either directly by the Commission or, indirectly, by entities and persons other than Member States in accordance with Article XX of the Financial Regulation. In particular, Union support for actions pursuant to Article 19 shall take the form of:
 - a) grants;
 - b) public procurement contracts;
 - c) reimbursement of costs incurred by external experts, including experts from the national, regional or local authorities of Member States providing or receiving support;
 - d) contributions to trust funds set up by international organisations; and
 - e) actions carried out through indirect management.
3. Grants may be awarded to the national authorities of Member States, the European Investment Bank group, international organisations, public or private bodies and entities legally established in:
 - a) Member States;

- b) European Free Trade Association countries which are party to the European Economic Area Agreement, in accordance with the conditions laid down therein.

The co-financing rate for grants shall be up to 100 % of the eligible costs.

- 4. Technical support may also be provided by individual experts, who may be invited to contribute to selected activities organised under the Programme wherever that is necessary for the achievement of the specific objectives set out in points (b) and point (c)ii) of Article 5(2).
- 5. In order to implement the technical support instrument under the Programme, the Commission shall adopt work programmes by way of implementing acts, and inform the European Parliament and the Council thereof.

Work programmes shall set out the allocation for technical support instrument. They shall also set out the measures needed for their implementation, in line with the general and specific objectives referred to in point (b) of Article 4 and in points (b) and (c)ii) of Article 5(2) and, the selection and award criteria for grants, and all the elements required by the Financial Regulation.

- 6. To ensure timely availability of resources, a limited part of the work programme shall be reserved for special measures in the event of unforeseen and duly justified grounds of urgency requiring an immediate response, including a serious disturbance in the economy or significant circumstances seriously affecting the economic or social conditions in a Member State going beyond its control.

The Commission may, on request by a Member State wishing to receive technical support, adopt special measures in accordance with the objectives and actions defined in this instrument to provide technical support to the national authorities in addressing urgent needs. Such special measures shall be interim in nature, and shall only be subject to the conditions laid down in Article 19(2). The special measures shall end within six months and may be replaced by technical support measures in accordance with the conditions set out in Article 19.

CHAPTER IV

Convergence Facility

Article 24

General provisions

1. The convergence facility for euro-area membership is available to any eligible Member State as referred to in Article 2(6). Support shall consist of the following two components:
 - a) the financial support component; and
 - b) the technical support component.
2. The provisions of Chapter II shall apply to the financial support component, complemented by the provisions set out in Articles 25 to 29.
3. The provisions of Chapter III shall apply to the technical support component, complemented by the provisions set out in Articles 30 to 32.

SECTION 1

FINANCIAL SUPPORT

Article 25

Eligible reforms

Structural reforms eligible for financing under the convergence facility shall be reforms that help eligible Member States in their preparation to join the euro area. Those reforms shall be aimed at addressing challenges identified in the context of the European Semester of economic policy coordination.

Article 26

Maximum financial contribution available for Member States

Annex X lays down a maximum financial contribution available for each Member State out of the overall financial envelope referred to in point (c)(i) of Article 7(2). Such

maximum financial contribution is calculated for each eligible Member State using the criteria and methodology set out in that Annex, based on population of each Member State, and applies for each of the allocation stages and calls set out in Article 10.

Without prejudice to the second subparagraph of Article 7(2), such a maximum financial contribution shall be available for allocation to each eligible Member State, in part or in full, at each stage of the allocation process in accordance with the procedure set out in Article 10 and shall represent an additional contribution over and above the financial contribution referred to in Article 9, which shall be granted in return for additional reforms undertaken by the Member State concerned in accordance with Article 25.

Article 27

Proposal for reform commitments

1. An eligible Member State shall submit a proposal for reform commitments under the financial support component of this convergence facility, in accordance with Article 11.
2. The proposal for reform commitments referred to in paragraph 1 shall set out the reforms that are considered important for the eligible Member State's preparation for participation in the euro area, and shall refer to the formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).

Such a proposal shall not concern reforms that are already proposed or already financed under the reform delivery tool referred to in Chapter II.

3. The Commission shall assess any proposal for reform commitments submitted under the financial support component of the convergence facility in accordance with Article 11. In addition, the Commission shall also assess the relevance of the proposed reform commitments for preparation for participation in the euro area.

Article 28

Commission decision

1. The Commission shall adopt a decision pursuant to Article 12(1), which shall set out the same elements referred to in that Article, in relation to reform commitments to be implemented by the eligible Member State, which are important for preparation for participation in the euro area. That decision shall also refer to the formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).
2. The financial contribution set out in the decision referred to in Article 12(1) shall be determined in accordance with the same criteria specified in that Article and in accordance with the additional criterion set out in Article 27(3). It shall represent a separate contribution compared to the financial contribution awarded under the reform delivery tool and shall be allocated in return for reforms that are important for their preparation for participation in the euro area and are undertaken by the Member State concerned.

Article 29

Complementary funding

Reforms that are financed under the reform delivery tool pursuant to Chapter II shall not be financed under the financial support component of the convergence facility.

SECTION 2 TECHNICAL SUPPORT

Article 30

Eligible actions

Pursuant to the objectives set out in point (b) of Article 4 and point (c)(ii) of Article 5(2) the convergence facility may finance actions and activities, in accordance with

Article 18, which support reforms that help eligible Member States in their preparation to join the euro area.

Article 31

Request for technical support

1. An eligible Member State shall submit a request for technical support under the convergence facility, in accordance with Article 19. The request shall also refer to the formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union).
2. The requests for technical support shall indicate whether they are relevant for preparation for euro-area membership pursuant to Article 30, providing appropriate justification thereof.
3. The Commission shall analyse requests for technical support under the convergence facility separately from other requests for technical support. In carrying out its analysis in accordance with Article 19, the Commission shall also consider the relevance of the request for preparation for euro-area membership.
4. The cooperation and support plan referred to in Article 19(3) shall identify, separately from other technical support, the measures linked to preparation for euro-area membership.

Article 32

Implementation of technical support

The work programmes referred to in Article 23(5) shall also set out the allocation of technical support to eligible Member States in relation to reforms that help in their preparation to join the euro area. The work programmes shall also set out the measures needed for their implementation, in line with the general and specific objectives referred to in point (b) of Article 4 and point (c)(ii) of Article 5(2), the selection and award criteria for grants, and all the elements required by the Financial Regulation.

CHAPTER V

Complementarity, monitoring and evaluation

Article 33

Coordination and complementarity

1. The Commission and the Member States concerned shall, in a measure commensurate to their respective responsibilities, foster synergies and ensure effective coordination between the Programme and other Union programmes and instruments, and in particular with measures financed by the Union funds. For that purpose, they shall:
 - a) ensure complementarity, synergy, coherence and consistency among different instruments at Union, national and, where appropriate, regional levels, in particular in relation to measures financed by Union funds, both in the planning phase and during implementation;
 - b) optimise mechanisms for coordination to avoid duplication of effort; and
 - c) ensure close cooperation between those responsible for implementation at Union, national and, where appropriate, regional levels to deliver coherent and streamlined support actions under each of the instruments established under this Regulation.

2. The Commission shall endeavour to ensure complementarity and synergies with support provided by other relevant international organisations.

Article 34

Monitoring of implementation

1. The Commission shall monitor the implementation of the Programme and measure the achievement of the general objectives set out in Article 4 and the specific objectives established in Article 5. Indicators to be used for reporting on progress and for the purpose of monitoring and evaluation of the Programme towards the achievement of the general and specific objectives are set in Annex III for each Programme instrument. The monitoring of implementation shall be targeted and proportionate to the activities carried out under the different Programme instruments.

2. The performance reporting system shall ensure that data for monitoring Programme implementation and results are collected efficiently, effectively, and in a timely manner. To that end, proportionate reporting requirements shall be imposed on recipients of Union funds.

Article 35

Annual report

1. The Commission shall provide an annual report to the European Parliament and the Council on the implementation of the Programme.
2. In relation to the financial support activities, the annual report shall include information on the progress made with reform commitments by the Member States concerned under the reform delivery tool. The annual report shall also include equivalent information on the implementation of the financial support component under the convergence facility.

For the purpose of the reporting on the financial support activities referred to in subparagraph 1, the Commission may use the content of the relevant documents officially adopted by the Commission under the European Semester, as appropriate.

3. In relation to the technical support activities, the annual report shall include information on:
 - a) requests for support submitted by Member States pursuant to Article 19(1);
 - b) the analysis of the application of the criteria, referred to in Article 19(2), used to analyse the requests for support submitted by Member States;
 - c) cooperation and support plans referred to in Article 19(3); and
 - d) special measures adopted pursuant to Article 23(6).
4. In relation to the technical support activities, the annual report shall also include the same elements referred to in paragraph 3 as regards the implementation of the technical support component under the convergence facility.

Article 36

Evaluation of the Programme

1. The Commission shall provide the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions with an independent mid-term evaluation report on the Programme no later than four years after the start of the Programme implementation and with an independent *ex post* evaluation report on the Programme no later than four years after the end of the period specified in Article 1.
2. The evaluation shall cover the reform delivery tool, the technical support instrument and the convergence facility.
3. The mid-term evaluation report shall include information on the achievement of the objectives of the Programme, the efficiency of the use of resources and the Programme's European added value. It shall also consider the continued relevance of all objectives and actions.
4. The *ex post* evaluation report shall consist of a global assessment of the Programme and shall include information on its impact in the long-run.

CHAPTER VI
Transitional and final provisions

Article 37

Information, communication and publicity

1. The recipients of Union funding shall acknowledge the origin and ensure the visibility of the Union funding, in particular when promoting the actions and their results, by providing coherent, effective and proportionate targeted information to multiple audiences, including the media and the public.
2. The Commission shall implement information and communication actions relating to the Programme, its actions and its results. Financial resources allocated to the Programme shall also contribute to the corporate communication of the political priorities of the Union, as far as they are related to the objectives referred to in Articles 4 and 5.

Article 38

Transitional provision

1. Technical support actions and activities initiated on or before 31 December 2020 pursuant to Regulation (EU) No 2017/825 shall continue to be governed by that Regulation until their completion.
2. The financial envelope of the Programme referred to in point (b) and point (c)(ii) of Article 7(2) may also cover technical and administrative assistance expenses, including monitoring, communication and evaluation required pursuant to Regulation No (EU) 2017/825 and not completed by 31 December 2020.
3. Where necessary, appropriations may be entered in the budget beyond 2020 to cover the expenses provided for in Article 7(3) relating to the management of actions not completed by 31 December 2020.

Article 39

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President

ANNEX I: CALCULATION OF THE MAXIMUM FINANCIAL CONTRIBUTION PER MEMBER STATE

This annex lays out the methodology for calculating the maximum financial contribution available for each Member State under the financial support instrument, as referred to in Article 9, and the maximum financial contribution available for each Member State under the financial support component of the convergence support instrument, as referred to in Article 26.

Reform delivery tool

The maximum financial contribution of a Member State under the reform delivery tool is defined as follows:

$$\alpha_i \times FS$$

where:

- *FS* (Financial Support) is the available financial envelope under the reform delivery tool as referred to Article 7(2)(a); and
- the allocation key of Member State *i*, α_i , is defined as:

$$\alpha_i = \frac{pop_i}{pop_{EU}}$$

pop_i is the total population in country *i*,

pop_{EU} is the total population of all EU-27 Member States.

Application of this formula results in the following share and amount for the maximum financial contribution under the reform delivery tool, which would be available to each Member States at each stage and call of the allocation process described by Article 10:

| | Share as % of total | Million (EUR) |
|-------|------------------------|------------------|
| BE | 2.55 | 281 |
| BG | 1.58 | 174 |
| CZ | 2.37 | 261 |
| DK | 1.30 | 143 |
| DE | 18.58 | 2,044 |
| EE | 0.29 | 32 |
| IE | 1.07 | 118 |
| EL | 2.38 | 262 |
| ES | 10.42 | 1,146 |
| FR | 15.09 | 1,660 |
| HR | 0.92 | 101 |
| IT | 13.53 | 1,489 |
| CY | 0.19 | 21 |
| LV | 0.43 | 47 |
| LT | 0.62 | 68 |
| LU | 0.14 | 15 |
| HU | 2.18 | 240 |
| MT | 0.10 | 11 |
| NL | 3.85 | 423 |
| AT | 1.98 | 218 |
| PL | 8.59 | 945 |
| PT | 2.30 | 253 |
| RO | 4.33 | 477 |
| SI | 0.46 | 51 |
| SK | 1.22 | 134 |
| FI | 1.24 | 136 |
| SE | 2.28 | 251 |
| Total | 100.00 | 11,000 |

Financial support component under the convergence facility

The maximum financial contribution under the financial support component of the convergence facility, as referred to in Article 26, shall be determined by the ratio of the allocation key of each prospective euro-area Member State under the reform delivery tool to the total of the allocation keys of all prospective euro-area Member States under the reform delivery tool, namely:

The maximum financial contribution under the financial support component of the convergence facility for Member State i is:

$$\beta_i \times CF$$

where CF (the financial support component of the convergence facility) is the available financial envelope under the financial support component of the convergence facility referred to in Article 7(2)(c)(i);

and

$$\beta_i = \frac{\alpha_i}{\alpha_{BG} + \alpha_{CZ} + \alpha_{HR} + \alpha_{HU} + \alpha_{PL} + \alpha_{RO} + \alpha_{SE}}$$

It results in the following shares and amounts for the maximum financial contribution under the financial support component of the convergence facility:

Appendix: proportional adjustment of the financial contribution (Article 10(5))

This appendix lays out the method for determining the financial contribution allocated to Member States in case the remaining amount of the overall envelope, which is available under a call organised after the end of the first twenty months, is not sufficient to cover the financial contributions to Member States having submitted a proposal under a call (either under the reform delivery tool or under the financial support component of the convergence facility).

In that case, the financial contribution allocated to Member State i is computed as follows:

$$FC_i \times \gamma$$

where FC_i is the financial allocation to Member State i determined on the basis of the criteria referred to in Article 12 (2) and is defined as:

$$FC_i = (\alpha_i \times FS), \text{ or } \frac{\alpha_i \times FS}{2}, \text{ or } (\beta_i \times CF), \text{ or } \frac{\beta_i \times CF}{2}$$

and γ is the adjustment factor, defined as:

$$\gamma = \frac{\textit{Remaining amount of the available financial envelope}}{\sum_i FC_i}$$

where i refers to any Member States having submitted a proposal for the call.

The financial contribution FC_i will correspond to:

- $(\alpha_i \times FS)$ when the Member State's reform proposal under the reform delivery tool has been assessed as complying fully with the criteria set out in Article 11(7), therefore benefiting from the maximum financial contribution;
- $\frac{\alpha_i \times FS}{2}$ when the Member State's reform proposal under the reform delivery tool has been assessed as complying satisfactorily with the criteria set out in Article 11(7), therefore benefiting from half the maximum financial contribution;
- $(\beta_i \times CF)$ when the Member State's reform proposal under the financial support component of the convergence facility has been assessed as complying fully with the criteria set out in Articles 11(7) and 27(3), therefore benefiting from the maximum financial contribution; or
- $\frac{\beta_i \times CF}{2}$ when the Member State's reform proposal under the financial support component of the convergence facility has been assessed as complying satisfactorily with the criteria set out in Articles 11(7) and 27(3), therefore benefiting from half the maximum financial contribution.

ANNEX II: ASSESSMENT GUIDELINES

1. Scope

The purpose of these assessment guidelines is to serve together with this Regulation as a basis for the Commission to assess - in a transparent and equitable manner - the proposals for reform commitments put forward by Member States and to determine the financial contribution in conformity with the objectives and any other relevant requirements laid down in this Regulation, when implementing the reform delivery tool and the financial support component of the convergence facility. These guidelines notably represent the basis for the application of the assessment criteria and the determination of the financial contribution as referred to, respectively, in Article 11(7) and Article 12(2), and Article 28.

The guidelines are thus neither applicable to the technical support instrument nor to the technical support component of the convergence facility. Therefore, they do not apply to the assessment of requests for technical support referred to in Articles 19 and 31.

The assessment guidelines are designed to:

- a) give further guidance on the assessment process of the proposals for reform commitments submitted by Member States;
- b) provide further details on the assessment criteria and provide for a rating system, to be established with a view to ensuring an equitable and transparent process; and
- c) define the link between the assessment to be made by the Commission under the assessment criteria and the determination of the financial contribution to be set out in the Commission decision in relation to the reform commitments selected.

The guidelines are a tool to facilitate assessment by the Commission of the proposals for reform commitments as submitted by Member States, and to ensure that the reform delivery tool and the financial support component of the convergence facility provide financial incentives for the implementation of reforms that are relevant and display high added value, while ensuring equal treatment among the Member States.

2. Process

In accordance with Article 11, a Member State wishing to receive support under the reform delivery tool shall submit a proposal for reform commitments to the

Commission. The proposal shall be duly reasoned and substantiated, and shall contain all the elements referred to in Article 11(3). For the purpose of the preparation of high-quality proposals for reform commitments, peer counselling may be organised by the Commission in order to allow the Member State concerned to benefit from the experience of other Member States, prior to the submission of the proposal.

The assessment process shall be carried out by the Commission in close cooperation with the Member State concerned. The Commission may make observations or seek additional information. The Member State concerned shall provide the requested additional information and may revise the proposal, if needed, prior to its official submission. The Commission shall take into account the justification and the elements provided by the Member State concerned, and any other relevant information.

In accordance with Article 12(1), the Commission shall carry out the assessment and adopt a decision by means of an implementing act within four months of the official submission of the proposal for reform commitments by the Member State concerned.

For the purpose of the assessment of the proposals for reform commitments submitted by Member States, the Commission may be assisted by experts.

Independently of the assessment to be carried out by the Commission, the Economic Policy Committee, set up by Council decision 2000/604/EC¹, may also provide its opinion on the proposals for reform commitments submitted by Member States.

The Commission decision shall set out the reform commitments to be implemented by the Member State, including the milestones and targets. It shall lay down the period for implementation of the reform commitments, which shall not be longer than three years from the adoption of that decision. It shall also establish the detailed arrangements and timetable for reporting by the Member State concerned within the European Semester process, and the relevant indicators relating to the fulfilment of the milestones and targets and the modality for providing access by the Commission to the underlying relevant data. Finally, in accordance with Article 12(2), the Commission decision shall determine the financial contribution to be allocated to the reform commitments being selected.

3. Assessment criteria

In accordance with Article 11(7), the Commission shall assess the nature and importance of the proposal for reform commitments, and, for that purpose, it shall take into account the following criteria:

¹ Council Decision of 29 September 2000 on the composition and the statutes of the Economic Policy Committee (2000/604/EC) (OJ L 257, 11.10.2000, p. 28–31)

- (1) whether the reform commitments:
 - a) are expected to effectively address challenges identified in the context of the European Semester, namely:
 - in the country-specific recommendations and in other relevant European Semester documents officially adopted by the Commission; or
 - where applicable, in the Macroeconomic Imbalance Procedure;
 - b) represent a comprehensive reform package;
 - c) are expected to strengthen the performance and resilience of the economy of the Member State concerned;
 - d) are expected, through their implementation, to have a lasting impact, where relevant by strengthening the institutional and administrative capacity of the Member State concerned;

and

- 2) whether the internal arrangements proposed by the Member States concerned are expected to ensure an effective implementation of the reform commitments during a maximum period of three years, including the proposed milestones and targets, and the related indicators.

As a result of the assessment process, the Commission shall give ratings to the proposals for reform commitments submitted by the Member States, under each of the assessment criteria referred to in Article 11(7), in order to assess the nature and importance of the proposals under the financial support instrument and with a view to establishing the financial allocation in accordance with Article 12(2).

For the sake of simplification and efficiency, under each criterion, the rating system shall range from A to C, as set out in the following:

3.1 Reform commitments are expected to effectively address challenges identified in the context of the European Semester

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

The proposal for reform commitments is aimed at addressing challenges identified in country-specific recommendations; or

- the proposal for reform commitments is aimed at addressing challenges identified in other relevant European Semester documents officially adopted by the Commission; or
- the proposal for reform commitments is aimed at addressing challenges identified in the Macroeconomic Imbalance Procedure;

and

- the reforms envisaged in the proposal for reform commitments are expected to effectively address the challenges identified, in that, following the completion of the proposed reform(s), those challenges would be expected to be considered resolved in the context of the European Semester process.

Rating

A – To a high extent and with high efficacy

B – To a medium extent and with medium efficacy

C – To a low extent and with low efficacy

3.2 Reform commitments represent a comprehensive reform package

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

The proposal for reform commitments is aimed at addressing a set of interrelated challenges for the Member State (coverage);

and

- the proposal for reform commitments is aimed at addressing challenges that are crucial for the functioning of the economy of the Member State (relevance).

Rating

A - Coverage and relevance are high: reform commitments aim at addressing several challenges raised in the country specific recommendations or in the Macroeconomic Imbalance Procedure;

B - Coverage and relevance are medium: reform commitments aim at addressing several challenges raised in relevant European Semester documents officially adopted by the Commission;

C - Coverage and relevance are low: none of the above

3.3 Reform commitments are expected to strengthen the performance and resilience of the economy of the Member State concerned

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- The proposal for reform commitments is aimed at structurally improving the performance of the economy of the Member State; and
- the proposal for reform commitments is aimed at reducing the vulnerability of the economy of the Member State to shocks;
- or the proposal for reform commitments is aimed at increasing the capacity of the economic and/or social structures of the Member State to adjust to and withstand shocks.

Rating

A – High expected impact on performance and resilience

B – Medium expected impact on performance and resilience

C – Low expected impact on performance and resilience

3.4 Implementation of reforms is expected to have a lasting impact, where relevant by strengthening the institutional and administrative capacity

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- The implementation of the proposed reforms is expected to bring about a structural change in the administration or in relevant institutions;
- or the implementation of the proposed reforms is expected to bring about a structural change in relevant policies;
- and the strengthening of administrative capacity can ensure a lasting impact.

Rating

A – To a large extent

B – To a moderate extent

C – To a small extent

3.5 Internal arrangements proposed by the Member States concerned are expected to ensure effective implementation of the reform commitments over a maximum period of three years, including the proposed milestones and targets, and the related indicators

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- A structure is tasked within the Member State with: (i) the implementation of the reform commitments; (ii) the monitoring of progress on milestones and targets; and (iii) the reporting; and
- the proposed milestones and targets are clear and realistic; and the proposed indicators are relevant, acceptable and robust; and
- the overall internal arrangements, proposed by the Member States in terms of organisation (including provision to ensure sufficient staff allocation) of the implementation of the reform commitments, are credible.

Rating

- A – Adequate internal arrangements for effective implementation
- B – Minimum internal arrangements for effective implementation
- C – Insufficient internal arrangements for effective implementation

4. Determination of the financial contribution under the reform delivery tool

In accordance with Article 12(2), the Commission shall determine the financial contribution taking into account the nature and importance of the reforms proposed by the Member State concerned, as assessed on the basis of the criteria set out in Article 11(7). For that purpose, it shall apply the following criteria:

where the proposal for reform commitments submitted by the Member State concerned complies fully with the criteria set out in Article 11(7), the reform commitments shall be considered to be "major", and the total amount of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned;

- (d) where the proposal for reform commitments by the Member State concerned complies satisfactorily with the criteria set out in Article 11(7), the reform commitments shall be considered to be "significant", and half of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned.
- (e) where the proposal for reform commitments by the Member State concerned does not comply satisfactorily with the criteria set out in

Article 11(7), no financial contribution shall be allocated to the Member State concerned.

As a result of the assessment process, and taking into account the ratings, the Commission shall allocate the financial contribution to the Member States in the following manner:

Major reform commitments (the proposal complies fully with the assessment criteria)

If the final rating includes scores with:

- all A's, or
- a majority of A's over B's and no C's,

the maximum financial contribution will be allocated to the reform proposal.

Significant reform commitments (proposal complies satisfactorily with the assessment criteria)

If the final rating includes scores with:

- a majority of B's over A's and no C's, or
- all B's,

half of the maximum financial contribution will be allocated to the reform proposal.

Insufficient reform commitments (proposal does not comply satisfactorily with the assessment criteria)

If the final rating includes scores with:

- at least one C,

no financial contribution will be allocated to the reform proposal.

5. Additional criterion under the convergence facility

In accordance with Article 27(3), in the context of the convergence facility, in addition to the criteria set out in Article 11(7), among which the assessment of the expected impact on resilience has a significant importance for the preparation for euro-area membership, the Commission shall also assess the relevance of the proposed reform commitments for preparation by the Member State concerned for participation in the euro area.

5.1 Relevance of reform commitments for participation in the euro area

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the proposal for reform commitments is in line with the Member State's roadmap for preparation for participation in the euro area;
- and
- the proposal for reform commitments is expected to contribute to the successful implementation of the Member State's roadmap for preparation for participation in the euro area.

Rating

- A – High relevance and substantial expected contribution
- B – Medium relevance and moderate expected contribution
- C – Low relevance and limited expected contribution

5.2 Determination of the financial contribution under the convergence facility

Under the financial support component of the convergence facility, in compliance with Articles 26 and 28, the financial contribution shall be determined in accordance with the same criteria as specified in Article 12(2), and shall represent a separate and additional contribution, which shall be allocated in return for additional reforms that are important for the preparation for participation in the euro area and are undertaken by the Member State concerned.

As a result of the assessment process, and taking into account the ratings, the Commission shall allocate the financial contribution to the Member States in the following manner:

High relevance for participation in the euro area

If the final rating includes scores under all criteria with:

- All A's, or
- a majority of A's over B's and no C's,

and

- the scores under the criterion on performance and resilience under point 3.3 and the criterion on relevance for participation in the euro area under point 5.1 are both A's,
- the maximum financial contribution will be allocated to the reform proposal.

Medium relevance for participation in the euro area

If the final rating includes scores under all criteria with:

- a majority of B's over A's and no C's,

and

- the score for the criterion on performance and resilience under point 3.3 is an A and the score for the criterion on relevance for participation in the euro area under point 5.1 is a B,
- half of the maximum financial contribution will be allocated to the reform proposal.

Low relevance for participation in the euro area

Irrespective of other scores, if the criteria on performance and resilience under point 3.3 is awarded a B or a C, no financial contribution will be allocated to the reform proposal.

ANNEX III: INDICATORS

The achievement of the objectives referred to in Articles 4 and 5 shall be measured on the basis of the following indicators, broken down by Member State and by area of intervention.

Indicators shall be used in accordance with data and information available, including quantitative and/or qualitative data.

Reform delivery tool

Output indicators:

- number of reform commitments concluded;
- overall financial contribution allocated to the reform commitments;

Result indicators:

- number of reform commitments completed;

Technical support instrument

Output indicators:

- number of cooperation and support plans concluded;
- number of technical support activities carried out;
- deliverables provided by the technical support activities such as action plans, roadmaps, guidelines, handbooks, and recommendations;

Result indicators:

- outcomes of the technical support activities provided, such as adoption of a strategy, adoption of a new law /act or modification of an existing one, adoption of (new) procedures and actions to enhance the implementation of reforms;

Convergence facility

- for the financial support component, the same indicators as referred to in points a) to c);
- for the technical support component the same indicators as referred to in points d) to g).

Impact indicators of the Programme

- The objectives set in the reform commitments, which have been achieved due, inter alia, to the financial support received under the instruments of the Programme;
- The objectives set in the cooperation and support plans, which have been achieved due, inter alia, to the technical support received under the instruments of the Programme.

The ex-post evaluation referred to Article 36 shall be undertaken by the Commission also with the purpose of establishing the links between the (financial and technical) support from the Programme and the implementation of structural reforms in the Member State concerned with a view to enhancing competitiveness, productivity, growth, jobs and cohesion.

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The Economic and Monetary Union (EMU) is designed to create the foundation for sustainable long-term economic growth by providing macroeconomic stability, while, at the same time, constituting a natural complement to Europe's single market. It involves close co-ordination of economic and fiscal policies and, for those countries fulfilling certain conditions, a single monetary policy and a single currency – the euro. Against the background of the debt crisis, important measures to improve the economic governance in the EU and the euro area in particular have been taken in the last years.

