

Eurogroup report to Leaders on EMU deepening

Following the mandate received from the Euro Summit in June 2018, the Eurogroup in inclusive format has worked further on all the elements of the Economic and Monetary Union (EMU) reform mentioned in the letter of the Eurogroup President of 25 June. We have agreed on a comprehensive package to further strengthen EMU. This includes notably the further development of the instruments and the role of the European Stability Mechanism (ESM), the operationalisation of the common backstop for the Single Resolution Fund (SRF) and possible instruments for competitiveness, convergence and stabilisation in EMU, which will strengthen further the resilience of the euro area.

We welcome the progress made to reach a political agreement on the Banking Package by the co-legislators in which the balance of the Council compromise should be maintained. We look forward to the final adoption of the Banking Package and the non-performing loans (NPL) Prudential Backstop preserving the balance of the Council compromise, which are important for further progress towards risk reduction and thereby towards risk sharing.

ESM reform

We agreed on a term sheet, annexed to this statement, for the further development of the ESM. The ESM has played a key role in crisis management by providing timely and effective stability support to euro area Member States. Enhancing the role of the ESM will further strengthen the crisis prevention and resolution capabilities of the euro area and its resilience.

We agreed on the main details for the operationalisation of the common backstop to the SRF – the detailed terms of reference are included in the annex. The common backstop to the SRF will be fiscally neutral in the medium-term and further strengthen the credibility of the Banking Union. The backstop will be introduced earlier provided that sufficient progress has been made in risk reduction to be assessed in 2020, as set out in the terms of reference.

We also agreed to increase the effectiveness of precautionary instruments while reaffirming the last resort character of ESM support and ensuring the appropriate level of conditionality, which remains an underlying principle of the ESM Treaty. The euro area will be equipped with these more effective tools for countries with sound economic fundamentals, which could be affected by an adverse shock.

We welcome the agreement reached between the ESM and the Commission on new modalities of cooperation within and outside financial assistance programmes, in full respect of the EU legal framework. This agreement is without prejudice to the role and competencies of the ECB as defined in the existing legal framework.

There is broad support for the need to improve the existing framework for promoting debt sustainability in the euro area. We intend to introduce single limb collective action clauses (CACs) by 2022 and to include this commitment in the ESM Treaty. When appropriate, and if requested by the Member State, the ESM may facilitate the dialogue between its Members and private investors. This involvement would take place on a voluntary, informal, non-binding, temporary, and confidential basis.

Banking Union

Furthermore, we welcomed the sustained progress made with risk reduction, as reported by the institutions, notably on NPL reduction and minimum requirement for own funds and eligible liabilities (MREL) build-up. We look forward to progress regarding insolvency regimes, in particular the adoption of the legislative proposals on insolvency and the benchmarking exercise.

We welcomed the ongoing work on improving the monitoring of the implementation of Anti Money Laundering measures (AML) and look forward to the adoption of an Action Plan at the 4 December Ecofin Council and progress on the ongoing legislative work. We invite the Commission to propose longer term actions to bring about further improvements in the prudential and AML frameworks identified on the basis of a thorough assessment in due consultation with Member States.

We also call for ambitious progress on the Capital Markets Union and progress towards adoption of key pending legislative proposals by Spring 2019.

In line with the mandate from the June Euro Summit, work has started on a roadmap for beginning political negotiations on a European deposit insurance scheme (EDIS), adhering to all elements of the 2016 roadmap in the appropriate sequence. Further technical work is still needed. We will establish a High-level working group with a mandate to work on next steps. The High-level group should report back by June 2019.

We also took stock of the current set-up for liquidity provision in resolution. There is broad support for the assessment of the institutions that there are limitations in the current framework which may hamper its effectiveness. Further work on solutions with the input of relevant institutions will be done in the first half of 2019. There should be reporting by June 2019.

Possible budgetary instruments for the euro area

The Eurogroup has discussed possible new budgetary instruments aimed at strengthening the euro area. We have notably discussed proposals from the Commission and from Germany and France, which suggest the establishment of instruments for competitiveness, convergence and stabilisation in the EMU.

As regards the instruments for competitiveness and convergence, France and Germany proposed an architecture for the Eurozone budget, which would be part of the EU budget. Its size would be determined by the heads of state and government in the context of the Multiannual Financial Framework (MFF).

Subject to a mandate to be given by the Euro Summit, work could proceed on the design, implementation and timing of such an instrument for convergence and competitiveness.

The possible features of a stabilisation function were also discussed, including the unemployment insurance scheme. We did not reach a common view on the need and design of such a function. Technical discussions continue.

Way forward

As regards the ESM reform (including the common backstop to the SRF), subject to the guidance from the Euro Summit, we stand ready to prepare the necessary amendments to the ESM Treaty by June 2019. We stand also ready to work further on all the above-mentioned issues in the first half of 2019.

- [Terms of reference of the common backstop to the Single Resolution Fund](#)
- [Term sheet on the European Stability Mechanism reform](#)
- [Joint position on future cooperation between the European Commission and the ESM \(press release\)](#)

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