European Commission - Fact Sheet

Completing Economic and Monetary Union: Questions and Answers

Brussels, 21 October 2015

Commission implements Stage 1 of "Five Presidents' Report"

Commission takes concrete steps to strengthen EMU

1. **Why is deepening EMU necessary?**

The euro has created new opportunities for citizens and businesses, it has facilitated cross-border trade and investment, brought price stability, expanded business opportunities, and made travel cheaper. But the crisis revealed that closer coordination of economic policy is needed to complement the euro and to realise the full potential of our common currency to deliver jobs, growth, social fairness and financial stability.

In June 2015, the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank and the President of the European Parliament presented a report on an ambitious yet pragmatic roadmap for completing the Economic and Monetary Union (EMU). According to the "Five Presidents' Report", closer integration is needed on four fronts: an Economic Union in which all countries can grow more prosperous together; a Financial Union, so that banks, insurers and financial markets can better serve the needs of European citizens and businesses; a Fiscal Union to ensure stable and sustainable public finances; and a Political Union to ensure parliaments have their say.

The Five Presidents also agreed on a roadmap for implementation that should consolidate the euro area by early 2017 (Stage 1, or "Deepening by Doing"), as a stepping stone towards more fundamental reforms in Stage 2, or "Completing EMU". Following a first debate in the College of Commissioners on 1 July, the adoption of today's package marks the start of the first stage of putting the vision of the Five President's Report into action. The long-term aim is to complete EMU by 2025.

1. **What are the key elements of today's package?**

The package adopted by the College today takes forward key elements of Stage 1 of the process to complete EMU: a **revised approach to the European Semester**, such as enhanced democratic dialogue; an improved toolbox of economic governance, including the introduction of **national Competitiveness Boards** and an **advisory European Fiscal Board**; a **more unified representation** of the euro area in international financial institutions, notably the IMF; and paving the way for a Financial Union, notably by completing the Banking Union and bringing forward proposals later this year on a European Deposit Insurance Scheme.

The package implements key short-term elements of the "Five Presidents' Report" on completing EMU that was published on 22 June 2015, and the following roadmap presented on 1 July 2015. The package builds on extensive consultation with Member States, the European Parliament, and stakeholders over the past months. The Commission will work with the European Parliament and the Council to rapidly put in place all the elements of the package.

1. **Which parts of this package are addressed to all EU Member States, and which to euro area countries only?**

Completing EMU is an open process, applicable to all euro area Member States but with full involvement of non-euro area Member States. This is reflected in the package. The revamped European Semester is applicable to all EU Member States, as is the improved toolbox for economic governance. The proposal for a Council Recommendation on Competitiveness Boards is addressed to euro area Member States, but all Member States are encouraged to put in place a similar body, if they so wish.. The European Fiscal Board will contribute to the Commission's functions in the multilateral surveillance in the euro area, in particular the coordination and surveillance of the budgetary discipline policies of Member States whose currency is the euro. The proposal for a Council decision on euro area external representation in the IMF concerns the euro area Member States, while aiming to strengthen cooperation in general between euro area and non-euro area Member States in international fora.

1. **What are the next steps?**

The steps presented in this Communication for Stage 1 of completing EMU, foreseen until mid-2017, build on existing instruments and make the best possible use of the existing Treaties. However, the Stage 1 initiatives should not be seen in isolation, but rather as stepping stones towards the next stage, starting as of 2017 and lasting until 2025. In Stage 2, more far-reaching measures would be agreed upon to complete the EMU's economic and institutional architecture. This will inevitably involve sharing more sovereignty and solidarity and will have to be accompanied by strengthened democratic oversight.

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

In order to inform the preparation of the White Paper, the Commission will facilitate a wide consultation with citizens, stakeholders, European and national parliaments, Member States and regional and local authorities on completing EMU. Public debates will be organised across the EU in 2016.

Finally, the Commission will establish in mid-2016 an Expert Group to explore the legal, economic and political preconditions that will inform the more long-term proposals as outlined in the Five Presidents' Report.

Overall, the Commission intends to be broad-based, transparent and inclusive for this process. The objective must be to shape a consensus for the more fundamental steps ahead, which – following further discussion – can be translated into a stronger legislation and institutional framework for the EU.

1. **Economic Union**

A system of national Competitiveness Boards

1. **Why is competitiveness important? What added value will Competitiveness Boards bring?**

Competitiveness is essential for resilience and adjustment capacity inside the monetary union as well as for ensuring sustainable growth and convergence. As the recent crisis has shown, euro area Member States are particularly susceptible to the possible build-up of competitiveness misalignments and unwinding of macroeconomic imbalances. In the absence of flexible nominal exchange rates, they also need adequate adjustment mechanisms for country-specific shocks.

To support reforms that enhance competitiveness, the existing EU mechanisms for economic policy coordination need to be backed by strong national ownership of reform agendas. A system of Competitiveness Boards will enhance independent policy expertise at Member State level and reinforce the policy dialogue between the EU and the Member States.

The aim of the boards is to assess competitiveness developments and policies in a broad sense, but also to provide policy advice for reform implementation, taking into account national specificities and established practices. The advice should take into account the broader euro area and EU dimension and in particular provide advice on how to implement the Country-Specific Recommendations (CSRs).

The boards should consider a comprehensive notion of competitiveness: wage dynamics as well as non-wage costs, productivity drivers, innovation and the attractiveness of the economy to businesses should all fall under the remit of the boards. Competitiveness Boards would publish their analytical findings and provide independent policy advice on an annual basis.

It is recommended to euro area Member States to establish Competitiveness Boards. Non-euro area Member States are encouraged to do the same, if they so wish.

1. **What would be the task of the Competitiveness Boards?**

Competitiveness Boards will not have tasks in the competition field and are totally unrelated to national competition authorities.

They will carry out tasks related to monitoring and providing policy advice in the field of competitiveness:

- Monitoring competitiveness developments in the Member State concerned;
- Providing policymakers and relevant economic actors with information to be considered within existing processes at national level, including collective wage bargaining. However, the aim of the Competitiveness Boards is not to interfere in any way with the wage setting process and the role of the social partners, nor to harmonise national wage setting systems;
- Monitoring policies related to competitiveness and providing ex post assessments of their effectiveness;
- Providing policy advice in the field of competitiveness. The advice should take into account the

broader euro area and EU dimension and in particular provide advice on how to implement at national level CSRs agreed at EU level.

1. **Who should contribute to the work of the Competitiveness Boards? How would independence be ensured?**

The Competitiveness Boards would be independent bodies and should have the capacity to ensure high-quality economic analysis. Member States may use existing structures, as appropriate.

Competitiveness Boards should be structurally independent or functionally autonomous vis-à-vis any public authority dealing with competitiveness-related issues of the Member State (in particular ministries or public administrations, institutes or agencies).

Competitiveness Boards should consult relevant stakeholders, e.g. national actors or groups of actors, including social partners, who participate in the economic and social dialogue of the Member States on a regular basis. However, the Competitiveness Boards should remain unbiased, in the sense that they should not convey only or mainly views of specific groups of stakeholders. These requirements of independence aim to ensure that the advisory role of Competitiveness Boards adequately reflects expert judgement formulated in the general interest.

1. **How will social partners be affected by this proposed Recommendation?**

Competitiveness Boards would not interfere with the role of the social partners. Their advice would inform, among other things, the wage-setting process, but their aim is neither to interfere with the wage-setting process nor to harmonise national wage setting systems. Social partners should continue to play their role according to the established practices in each Member State and could potentially benefit from the analysis provided. The Competitiveness Boards will consult the social partners on a regular basis.

1. **What will be the role of the Commission?**

The Commission should facilitate the coordination between national Competitiveness Boards and exchange views with them, in particular to promote the consideration of euro area and EU objectives in the work of the boards. Contacts are envisaged ahead of the production of annual reports and during fact-finding missions to Member States. The independent expertise provided by those boards, including through the annual reports, will be used to inform the Member States' and Commission's analysis in the European Semester and the Macroeconomic Imbalance Procedure (MIP).

What the Commission has put forward today is a Recommendation to the Council to adopt a Recommendation on Competitiveness Boards.

6. How will Competitiveness Boards be established and how will existing bodies with similar tasks be integrated?

In many Member States, there are already institutions that produce analyses or recommendations on matters related to competitiveness, but the scope, structure, and functioning of these bodies varies significantly, and in some countries there is more than one body similar in nature and task. For example:

- in Belgium and France, some institutions have a narrow scope, limited to wage developments (*Conseil Central de l'Economie* in Belgium) and minimum wages (*groupe d'experts indépendants sur le SMIC* in France).
- in Denmark, a commission has received a mandate on several occasions to analyse the determinants of slow productivity and provide wide-ranging recommendations. Such a commission does not work on a permanent basis.
- in the Netherlands (*Bureau for Economic Policy Analysis* – CPB), France (*Council of Economic Analysis* – CAE), Germany (*Council of Economic Experts, IFO, IfW, IWH, RWI*), Austria (WIFO), Belgium (*Federal Planning Bureau* – BFP) one or several public institute(s) provide economic advice and policy recommendations on economic issues, but they are not focused on competitiveness as such. Some of these bodies have own staff and resources and are offices for economic analysis (e.g. CPB, IFO, BFP, WIFO), while others are groups of eminent experts (CAE, Council of Economic Experts).
- in addition, in France, the *Economic, Social and Environmental Council* (CESE) consists of more than 200 counsellors appointed by organisations that represent all the facets of the civil society. This council publishes reports on various topics and issues opinions resulting from a vote.
- in Ireland, the *National Competitiveness Council* (NCC) reports on key competitiveness issues and offers policy recommendations.

The setting up of Competitiveness Boards would need to reflect the fact that authorities and bodies with a similar aim already exist in some Member States. It would be for the Member States to assess if a body, or which of the bodies, could fulfil the requirements for Competitiveness Boards in the sense of the proposed Council Recommendation.

To take account of this diversity of experiences and practices, Member States should be free to design their national Competitiveness Boards, either by setting up a new institution, or by identifying one Competitiveness Board, which could in turn rely on different existing bodies.

When setting up their Competitiveness Boards, Member States should ensure they conform to the minimum requirements set out in the proposed Council Decision: the boards should be independent from government authorities dealing with related matters and have the capacity to ensure high-quality economic analysis; in addition, they should not convey only, or mainly, the views of specific groups of stakeholders.

The revamped European Semester

Why does the European Semester need to be strengthened?

The European Semester has become an important vehicle for delivering reforms at national and EU level. Yet Member States' implementation of CSRs has so far been uneven and often limited. In order to further increase ownership of the process and increase reform implementation, economic policy coordination needs to be further strengthened.

The Juncker Commission has already streamlined the European Semester: it created more space for dialogue with Member States by publishing the Country Reports already in February and the CSRs in May; and it provided more focus by significantly decreasing the number of recommendations. Building on the steps already taken, some further adjustments can bring additional benefits.

1. **What are the main novelties of the revamped Semester?**

To better integrate the euro area and the national levels, the European Semester will be structured into two successive stages distinguishing more clearly between the European stage and the national stage. In future, discussions and recommendations about the euro area will take place first, ahead of country-specific discussions, so that common challenges can be fully and coherently reflected in country-specific actions.

Every November, the European Semester kicks off when the Commission publishes its Annual Growth Survey (AGS). The Commission will, as part of the AGS package, put specific focus on the key fiscal, economic and financial priorities for the euro area as a whole, including its fiscal stance.

The Commission will also focus strongly on employment and social developments in the revamped Semester, by increasing emphasis on employment and social performance in the Macroeconomic Imbalances Procedure and improving the involvement of the social partners.

The Commission will progressively suggest benchmarks and cross-examination exercises across policy or thematic areas, to foster a common understanding of challenges and policy responses and to increase reform implementation.

To support structural reforms making the best use of the EU Funds, the Commission will apply Macro-Economic Conditionality to ensure that the effectiveness of the European Structural and Investment Funds is not undermined by unsound macro-economic policies. At the same time, effective reform implementation will be supported through the progressive roll-out of technical support coordinated by the Commission's Structural Reform Support Service (SRSS).

1. **How will the Semester process be made more democratic?**

The involvement of the European Parliament and national parliaments in the European Semester process needs to be further strengthened. The European Parliament should give its input on the economic and social priorities of the EU, which the Commission will take into account in its preparation of the 2016 Annual Growth Survey. The Commission intends to engage with the European Parliament in a plenary debate after the publication of the AGS package and upon the presentation of the Commission proposals for CSRs.

The Commission also suggests dedicated meetings for strengthened economic dialogue and an increased participation of Commission representatives in the inter-parliamentary meetings throughout the Semester process, especially during the dedicated European Parliamentary Week.

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

1. **How is the social dimension of the Semester enhanced?**

The Commission will build upon the changes already introduced in the previous European Semester. The 2015 Country Reports discussed employment and social developments in detail and Country-Specific Recommendations focused on issues of macroeconomic and social relevance.

The 2016 Semester will put a sharper focus on employment and social performance. This includes not only a stronger emphasis on social aspects in the Macroeconomic Imbalances Procedure, but also a closer involvement of social partners in the Semester process, more attention to social fairness as part of new macroeconomic adjustment programmes and convergence towards best practices and benchmarks in the employment and social policy field.

Social partners should also play a central role in the development of a European pillar of social rights, as President Juncker announced in his State of the Union speech. This pillar should take into account the changing realities of Europe's societies and world of work and will be an important element of the renewed convergence within the euro area.

1. **Financial Union**

Banking Union

1. **Why is the Banking Union important to complete the European and Monetary Union (EMU)?**

The Banking Union is a key element of EMU and an integral part, together with the Capital Markets Union, of the objective of moving towards a Financial Union. It is needed in order to guarantee the integrity of the euro, to promote economic convergence and increase risk-sharing with the private sector. By centralising supervision and resolution of banks in participating Member States, the Banking Union is helping to break the negative links between banks and sovereigns and facilitate better risk sharing should shocks occur. The Banking Union should be completed during the first stage of the EMU roadmap (by mid-2017).

1. **How much of the Banking Union has been completed, and where is further work needed?**

Three years after the European Heads of State and Governments agreed to create a Banking Union, two pillars of the Banking Union – single supervision and resolution – are in place, resting on the solid foundation of a single rulebook for all EU banks. Common rules will help to prevent bank crisis in the first place (in particular Capital Requirements Directive and Regulation, CRD IV/CRR) and, if banks do end up in difficulty, set out a common framework to manage the process, including the means to wind them down in an orderly way (Directive on Bank Recovery and Resolution, BRRD).

The first pillar of the Banking Union is the Single Supervisory Mechanism (SSM). Since 4 November 2014, the European Central Bank (ECB) has directly supervised the most significant banking groups in participating Member States. A rigorous comprehensive assessment of bank balance sheets as well as a stress test, jointly organised by the ECB and the European Banking Authority (EBA), indicated the existence of a sound banking system in the euro area.

The second pillar is the Single Resolution Mechanism (SRM). The SRM will apply an integrated and effective resolution process at EU level for all banks in Member States supervised by the SSM. The Single Resolution Board and the Single Resolution Fund will be fully operational from 2016.

Work is ongoing to ensure a common backstop to the Single Resolution Fund (SRF) during the transition period in which the Fund is built up (until 2023). This is to ensure that the Fund has sufficient resources to deal with a major bank resolution, or several bank resolutions occurring in rapid succession. During the transition period and the building up phase of the fund, adequate bridge financing should ensure the viability of the fund, in case financing would be needed.

While important progress has been made, further steps are needed to complete the Banking Union. First, all Member States need to fully enact the Bank Recovery and Resolution Directive into national law. Swift agreement is also needed on an adequate bridge financing to ensure resources are available until the SRF is fully financed through contributions from the banking sector. Secondly, Member States must agree swiftly on a set-up of a credible common backstop for the Single Resolution Fund, to ensure that the fund has sufficient resources to deal with a major bank resolution, or several bank resolutions occurring in rapid succession. To increase the overall resilience of the Banking Union framework, the Commission will present before the end of the year a proposal for a European Deposit Insurance Scheme. In parallel with its proposal on the European Deposit Insurance Scheme, the Commission is committed to further reduce risks and ensure a level playing field in the banking sector and limit the bank-sovereign loop. Finally, alongside the completion of the Banking Union, the Capital Markets Union is a key priority.

3. What is the state of play of the transposition of the Bank Recovery and Resolution Directive?

The Bank Recovery and Resolution Directive (BRRD) sets out the rules and procedures that Member

States must adopt to mitigate and manage the distress or failure of a bank or investment firm. It provides the tools and powers necessary to ensure that banks on the verge of insolvency can be restructured in order to avoid taxpayers having to bail them out and to safeguard financial stability. It is among a number of measures that the EU legislators have adopted since 2008 to increase the resilience of financial institutions and enhance financial stability in general. . The deadline for the implementation of the Directive in national law was 31 December 2014.

Full transposition of the BRRD in all 28 Member States is essential so that authorities have the tools to plan ahead of bank crises and to deal with them, if they were to occur. In order to fulfil its duties as guardian of the Treaties and of EU legislation, the Commission started infringement procedures in January 2015 against those countries which had not transposed BRRD in time. Since then, 16 Member States have communicated to the Commission full transposition measures (Austria, Germany, Finland, UK, Ireland, Greece, Latvia, Estonia, Hungary, Croatia, Slovakia, Portugal, Denmark, Bulgaria, France and Malta) and another five have communicated partial transposition measures (Belgium, Cyprus, Netherlands, Spain, and Slovenia). The Commission will take further steps against the seven remaining Member States that have not transposed the BRRD (Czech Republic, Luxembourg, Italy, the Netherlands, Poland, Romania and Sweden).

4. Why is a European Deposit Insurance Scheme necessary?

Deposit Guarantee Schemes (DGS) are built to increase the confidence of depositors and thus limit the risk of bank runs. Recently agreed rules provide that in each Member State citizens' deposits below EUR 100 000 per bank must be protected. But the euro area banks and national governments are too interlinked. The problem is two-fold. First of all, banks are the main holders of their own government's debt, meaning that a weak sovereign will have a direct effect on the strength of the national banking system. At the same time, the government is supposed to provide deposit insurance.

The current set-up of national DGSs, therefore – whilst being an important element for citizens' confidence - maintains the negative feedback loop between sovereigns and domestic banks, as we saw during the recent crisis.

Recently agreed rules require all Member States to put in place pre-funded national DGS. However, Member States are not equally advanced on this matter. In order to cater for these differences and take legacy issues into account, the Commission will propose a system based on reinsurance, to supplement the Member States' national schemes, which will remain in place. The Commission will present the details in a legislative proposal before the end of the year. Like in any insurance system, safeguards would need to be introduced to avoid moral hazard and incentivise national schemes to manage their risks in a prudent way.

1. **What is the state of play of the transposition of the Directive on deposit guarantee schemes (DGS Directive)?**

The Directive on deposit-guarantee schemes (DGS Directive) adopted in 2014 harmonises, to a much larger extent than the previous DGS Directive adopted in 1994, the rules governing deposit-guarantee schemes in all EU Member States. The deadline for the implementation of the Directive in national law was 3 July 2015.

Among other things, the new DGS Directive provides for EU-wide deposit coverage, enhanced protection for temporary high deposits (e.g. after the sale of private property), faster payouts (7 days after a transitional period) and pre-funding of national funds by contributions from the banking sector. Member States already have deposit guarantee schemes on the basis of the previous DGS Directive adopted in 1994 (and as amended in 2009) and already protect deposits up to 100,000 euro (or its equivalent in non-euro currencies). However, the new DGS Directive will improve these schemes, increase protection of depositors and level the playing-field for banks in the internal market. The Commission started infringement procedures in September 2015 against those countries which had not transposed the new DGS Directive in time. By now, ten Member States have communicated to the Commission full transposition measures (Bulgaria, Denmark, Germany, Croatia, Latvia, Hungary, Austria, Portugal, Finland, United Kingdom) and another four have communicated partial transposition measures (Czech Republic, Spain, France, Slovakia). The Commission will take further steps against the 14 remaining Member States that have not transposed the DGS Directive (Belgium, Estonia, Ireland, Greece, Italy, Cyprus, Lithuania, Luxemburg, Malta, The Netherlands, Poland, Romania, Slovenia, Sweden).

1. **Fiscal Union**

European Fiscal Board

1. **Why is a European Fiscal Board necessary and what will its role be?**

The past years have underlined the importance of conducting responsible fiscal policies as a key pillar of the European growth strategy. The conduct of responsible national fiscal policies, by which policymakers aim to reconcile sustainability of public finances with the need to provide adequate support throughout the economic cycle, is especially important in the euro area. The Stability and Growth Pact focuses on national budgets rather than the overall fiscal situation of the euro area. A more informed discussion of the overall implications of budgetary policies will help to achieve an appropriate fiscal stance for the euro area as a whole, within the rules of the Stability and Growth Pact.

Following the recommendations of the "Five Presidents' Report", the independent European Fiscal Board (EFB) will provide advice on and evaluations of fiscal matters. The EFB will provide an economic judgement on the appropriate fiscal stance for the euro area that is consistent with EU fiscal rules and will also keep track of how the EU's fiscal framework is being implemented. It may also make suggestions for the future evaluation of the EU fiscal framework.

1. **How would a European Fiscal Board relate to existing national fiscal councils?**

National fiscal councils are independent bodies operating in the field of fiscal policy in the Member States. Their fundamental, but not exclusive, task is to monitor whether and how national fiscal rules are complied with. All Member States are required to have national fiscal councils under the "two-pack" regulation.

To carry out efficiently the mission entrusted to it, the independent EFB will cooperate closely with national fiscal councils and will benefit from their expertise in fiscal matters and their local knowledge. The cooperation is expected to benefit both the EFB and the national fiscal councils by fostering the exchange of best practices and facilitating common understandings on matters related to the EU fiscal framework.

1. **How would a European Fiscal Board relate to the Commission's work on fiscal surveillance?**

The Commission will benefit from the advice of the EFB and take it into account when conducting its surveillance tasks. The EFB's mission is advisory.

1. **How will the board's independence be assured?**

The creation of the European Fiscal Board as an independent body providing advice to the Commission builds on the principles applicable to national fiscal councils laid down by the Commission. To ensure a solid and transparent legal footing, the EFB will be established via a Commission Decision, with provisions safeguarding its independence. Moreover, the Board will be composed of five renowned international experts with credible competence and experience in macroeconomics and practical budgetary policy-making. In line with best practices, these high-calibre experts will be appointed by the Commission in consultation with several key stakeholders such as the European Central Bank, the Eurogroup Working Group and the national fiscal councils. While linked to the Commission for practical administrative purposes, the European Fiscal Board will enjoy full autonomy in carrying out its tasks and will publish an annual report of its activities.

1. **Political Union**

More democratic accountability

1. **How will the say of parliaments be strengthened?**

Beyond the strengthened dialogue with national authorities, the involvement of the European Parliament and national Parliaments in the European Semester process needs to be further strengthened.

The European Parliament is invited to give its input on the economic and social priorities of the EU, which the Commission will take into account in its preparation of the 2016 AGS. On top of that, the Commission intends to engage with the European Parliament in a plenary debate after the publication of the AGS package and upon the presentation of the Commission proposals for country-specific recommendations.

The Commission also suggests having dedicated meetings for strengthened economic dialogue and an increased participation of Commission representatives in the inter-parliamentary meetings throughout the Semester process, especially during the European Parliamentary Week.

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

1. **How will social partners be involved more closely in economic policy making?**

Member States should strengthen the involvement of national social partners, in particular to improve ownership of reform efforts. To this end, the Commission encourages stronger involvement of the social partners in the elaboration of National Reform Programmes. In addition, Commission representations in the Member States will consult national social partners at pre-defined key milestones of the Semester. These steps would be complemented by strengthened dialogue with social partners during European Semester missions. Moreover, EU-level social partners will be involved in discussions earlier, for instance through a renewed Tripartite Social Summit and Macroeconomic Dialogue, to strengthen their contributions to the Semester process.

Social partners should also play a central role in the development of a European pillar of social rights, as announced by Commission President Juncker in the State of the Union speech. This pillar should take into account the changing realities of Europe's societies and world of work and will be an important element of the renewed convergence within the euro area.

1. **How will it be ensured that economic adjustment programmes become more socially balanced?**

Greater attention will be given to the social fairness of new macroeconomic adjustment programmes to ensure that the adjustment is spread fairly and to protect the most vulnerable in society. In the case of Greece and at the insistence of the Commission, social considerations were explicitly introduced or reinforced in the Memorandum of Understanding, which spells out the agreed policy conditionality attached to the new three-year stability support programme for Greece. The Commission prepared the first social impact assessment for the new Greek Memorandum of Understanding. The document shows how social factors have been taken into account, also building on the experience from previous programmes. The Commission intends to accompany any future European Stability Mechanism programme with such a social impact assessment.

The Commission also considers useful presentations to the European Parliament of the latest concluded reviews of ongoing macroeconomic adjustment programmes and discussions on the social impact assessments prepared for new European Stability Mechanism programmes.

External representation of the euro area

1. **Why does the euro area need a common representation at the IMF?**

The IMF, through its lending instruments and surveillance, is an essential pillar of global economic and financial governance. A common representative at the IMF would allow the euro area to deliver a clearer message on issues such as economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability, and give its opinion greater weight. More effective representation would thus allow the euro area to play a greater role in shaping the future global financial architecture and to more effectively promote euro area interests at the global level.

1. **Who should represent the euro area?**

In his State of the Union speech President Juncker already said that the President of the Eurogroup would be the natural spokesperson for the euro area in international financial institutions such as the IMF. Today the Commission proposes that for its unified representation the euro area should be represented by the President of the Eurogroup at the Ministerial level in the IMF. At the IMF Executive Board, the euro area would be represented by the Executive Director of a euro area constituency, following the establishment of one or several constituencies composed only by euro area Member States.

1. **Apart from the IMF, where else should the euro area have a common representative?**

Considerable progress has been made in strengthening the EU and the euro area's representation in many international economic and financial fora, but more could be done. This communication and the legal proposal focus on the IMF as a first step in strengthening the external representation of the euro area. This does not prejudge future developments that could call for a further strengthening of euro area representation elsewhere. The Commission will work with the Member States towards further improving coordination in all international fora. It will look, in particular, at areas where EMU is being deepened further, such as banking supervision or in relation to financial stability matters. In doing so, the Commission may decide on further initiatives to strengthen euro area representation in other international fora.

How would common representation be achieved?

On the way to a common representation of the euro area, the Commission plans for a three-pronged approach. First, euro area Member States would strengthen their coordination; second, the representation of the euro area at the IMF would be improved; third, once the necessary adjustments to the IMF governance are made, a unified representation and a single seat for the euro area would be established. These developments do not necessarily need to succeed one another but can take place in parallel.

Arrangements to represent the euro area more effectively at the IMF should be set out and agreed without delay, but implemented step-by-step, to allow all actors involved at the EU and the international level to make the necessary legal and institutional adjustments.

The Commission invites Member States to adopt a decision laying down the measures required to pave the way for the euro area to have a unified representation at the IMF by 2025 at the latest. The Commission also invites the Council to improve the process for coordinating euro area positions at the IMF, and to strengthen accountability arrangements. Finally, the Commission invites the Council to make representation of the euro area at the Fund gradually more consistent. The Commission will work inclusively with all EU Member States to further improve coordination in all international fora.

1. **Would individual euro area Member States no longer be shareholders of the IMF?**

Euro area Member States would remain individual Fund members, retaining their existing rights and privileges and their individual quota shares. The legal proposal asks for measures in order to allow the President of the Eurogroup and, in the Executive Board, a representative of the euro area, to speak on behalf of the entire euro area, taking into account the current IMF membership structure where euro area Member States retain their individual IMF membership.

Link to IMF constituencies

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