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To the members of the Eurogroup in inclusive format

Subject: Eurogroup in inclusive format of 13 June 2019

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting in inclusive format of 13 June in Luxembourg.

The Commission was represented by Vice-President Valdis Dombrovskis, Commissioner Pierre Moscovici and Commissioner Günther Oettinger. ECB President Mario Draghi and Executive Board Member Benoit Coeuré and ESM Managing Director Klaus Regling attended our meeting.

1. EMU Deepening – Preparation of the June Euro Summit

In line with the Treaty on Stability, Coordination and Governance (TSCG), we prepared the reporting to the June Euro Summit on the following priority areas: the budgetary instrument for convergence and competitiveness, the ESM reform and the necessary amendments to the ESM Treaty, and the further strengthening of the Banking Union.

First, we agreed on the main features of the budgetary instrument for convergence and competitiveness (BICC) for the euro area, and ERM II Member States on a voluntary basis. These features are set out in the annex. The Eurogroup discussed two different options for the financing of the budgetary instrument: general own resources with or without additional national contributions. There is no consensus yet on the appropriate options of financing. The Eurogroup will work further on financing arrangements on the basis of guidance from the leaders, and report back. Technical work has continued on stabilization, on which there is no consensus.

Second, on the ESM reform we have reached a broad agreement on revising the ESM Treaty provisions to implement the agreement reached in December 2018. We also welcomed the progress made on related legal documentation while acknowledging that further work will continue in the second half of the year to align it with the revised ESM Treaty and further specify its provisions. The Commission and the ESM informed us that they will finalise and publish their common methodological working document on Debt Sustainability Analysis (DSA) by December 2019. We will also come back to the issue of ESM market presence in the second half of the year. We should be in a position to conclude an agreement on the full package in December 2019. We also recalled that the common backstop will be established at the latest by the end of the transition period. The backstop will be introduced earlier provided that sufficient progress has been made in risk reduction to be assessed in 2020. We endeavour to find an agreement on limited Intergovernmental Agreement (IGA) changes. The Commission emphasised the need for a commitment to integrate the ESM into the legal framework of the European Union.

Third, we welcomed the progress in the discussions on the further strengthening of the Banking Union, including through a European deposit insurance system and took note of the report of the Chair of the High Level Working Group. We recognised that further technical work will be needed on defining a transitional path to the steady state Banking Union for relevant elements and their sequencing, adhering to all the elements of the 2016 roadmap. This work should include a roadmap for beginning political negotiations on a European deposit insurance system. We have therefore mandated the HLWG to continue this work and report back by December 2019.

Finally, we also took stock of the technical work undertaken on liquidity provision in resolution, to address the limitations in the current framework. Discussions in the second half of the year will continue, in particular on the most consensual options for the refinement of current practices and on the proposals on SRB guarantees to the Eurosystem as well as the capacity of the SRB to provide collateral to banks in resolution. We asked the EWG to report back by December 2019.

Yours sincerely,

Mario Centeno

Annex: Term sheet on the Budgetary Instrument for Convergence and Competitiveness

In line with the mandate of the Euro Summit of December 2018, the Eurogroup in inclusive format agreed on the main features of the budgetary instrument for convergence and competitiveness (BICC) for euro area, and for EMU II Member States on a voluntary basis. The instrument will strengthen the Economic and Monetary Union by supporting a higher degree of convergence and competitiveness within the euro area and participating Member States, hence contributing to the overall cohesion of the Union. It will help to strengthen the potential growth and to enhance the resilience and adjustment capacities of our economies as well as the mechanisms of economic governance.

General principles:

- The instrument should as a rule support both structural reforms and public investment through a coherent package reflecting the key objective to increase the degree of convergence and competitiveness within the euro area.
- Structural reforms and public investment projects should reflect the strategic guidance on the use of the instrument provided by euro area Member States, through the Eurosummit and the Eurogroup, and set out in the European Semester.
- The instrument is applicable to all euro area Member States, and to EMU II Member States on a voluntary basis. The Eurogroup will ensure that the views of participating EMU II Member States are taken into account as part of the governance framework of the instrument. Appropriate specific arrangements should be defined for non-euro area Member States not participating in the instrument when the financial arrangements for the BICC will be decided.

Key features:

- The Eurosummit and the Eurogroup will give strategic guidance on the key reform and investment priorities for the convergence and competitiveness of the euro area and will review these priorities annually. The priorities will be reflected in a strengthened Euro Area Recommendation.
- Participating Member States will submit duly substantiated reform and investment proposals, reflecting the strategic guidance as above. The proposals will include the estimation of the costs of investments and, where appropriate, of structural reforms, the justifications for the estimated costs, as well as the timeline for implementation of the structural reforms and investments, with the relevant milestones and targets.
- With a view to ensuring ownership at the national level, a minimum national co-financing rate will be set as a percentage of the total cost of the investment and reforms. The national co-financing rate could vary based on a predictable and transparent commonly agreed procedure defined ex-ante involving euro area Member States.
- The support from the instrument will be delivered in the form of grants (i.e. direct financial contribution). The amount of the support that a Member State can benefit from will be determined based on the cost estimate.
- The allocation of funds per country will be determined on the basis of a transparent methodology, taking into account parameters reflecting the overarching aim of the instrument and legal basis. The available funds per country should be within an acceptable range of the contributions of that country. Further work is needed on these issues.
- Member States' access to financing will depend on the implementation of structural reforms and investments, the respect of the applicable macro-economic conditionality foreseen in the Common Provisions Regulation and the respect of horizontal rules applying to the implementation of the EU budget (e.g. Financial Regulation). Member States will receive the financial support in instalments, subject to the fulfilment of agreed milestones.
- The Commission will assess the Member States' proposals on the basis of transparent criteria. Member States will report on the implementation of reform and investment commitments regularly, in the context of the European Semester.
- The relevant preparatory committees of the Eurogroup will be involved in the discussion of the assessment of Member States' proposals and monitoring of progress, in full respect of the Commission's responsibilities for the implementation of the instrument and of the budget. The Eurogroup in the relevant format will also discuss the assessments and the progress reports.

- In case of unsatisfactory implementation of the reforms and investments, payments will be suspended, and cancelled in case this situation persists.

Financing and governance

- The instrument will be part of the EU budget. Its size will be determined in the context of the MFF.
- The Commission will be responsible for budgetary implementation and the European Parliament for giving the discharge, after the Council has given its recommendation. Implementation will be subject to the scrutiny of the European Court of Auditors.
- The instrument will be adopted in accordance with the legislative procedure, as foreseen by the Treaties, on the basis of the relevant Commission proposal to be amended.
- The Eurogroup considers that the arrangements for the governance framework for the euro area Member States should be codified in an additional act.
- The Eurogroup's understanding is that this agreement on the features of the budgetary instrument for convergence and competitiveness does not pre-judge the discussion on the Convergence Facility and the Technical Support Instrument, which the Commission has proposed under the Reform Support Programme.