EUROPEAN PARLIAMENT

Economic Dialogue and Exchange of Views with the President of the Eurogroup, Mr Jean-Claude Juncker, Prime Minister of Luxembourg

ECON, 10 January 2012

President Juncker has been invited for an Economic Dialogue in line with the new economic governance legal framework, in particular Article 2ab of Regulation 1466/97.

Overview of the functioning of the Eurogroup

The Eurogroup was created in 1997 to enhance economic policy coordination amongst Member States sharing the single currency. It brings together, on an informal basis, the Finance Ministers of Member States in the euro area, along with the European Commission and the European Central Bank (ECB). **The Lisbon Treaty** recognized the Eurogroup and established rules on it in Protocol No 14. It also introduced a separate chapter on provisions specific to Member States whose currency is the euro.

According to the Euro Summit Statement of 26 October 2011 the Eurogroup, together with the European Commission and the ECB, remains at the core of the daily management of the euro area and plays a central role in the implementation by the euro area Member States of the **European Semester**. It was also agreed that the Euro Summit and the Eurogroup would rely on a **stronger preparatory structures,** such as the possibility to nominate the next President of the Eurogroup as a full-time President based in Brussels.

According to the European Council conclusions of December 2012 the governance within the euro area should be further improved, building on the **Treaty on Stability, Coordination and Governance in the Economic and Monetary Union** (TSCG) and taking into account the Euro Summit Statement of October 2011. The euro area Heads of State or Government are expected to adopt in March 2013 rules of procedure for the Euro Summit meetings. The TSCG entered into force on 1 January 2013, after ratification by Austria, Cyprus, Germany, Denmark, Estonia, Spain, France, Greece, Italy, Ireland, Lithuania, Latvia, Portugal, Romania, Finland and Slovenia.

Jean-Claude Juncker, Prime Minister and Finance Minister of Luxembourg, has chaired the Eurogroup since 2005 and was formally reappointed as President of the Eurogroup following the entry into force of the Lisbon Treaty. In July 2012, his mandate was renewed for another term. As of 8 October 2012, he became the Chair of the Board of Governors of the **European Stability Mechanism (ESM).** On 3 December 2012, Mr Juncker announced that he would step down as President of the Eurogroup at the end of 2012.

More information on the Eurogroup is available on the "***Eurozone Portal***" established by the Council.

9.1.2013

1. Eurogroup Work Programme for the first half of 2013

The indicative work programme for the Eurogroup for the first half of 2013 was published on 2 December 2012 and it includes the following priorities:

- Monitoring the following individual Member States:
  - Greece, Ireland and Portugal (incl. the adjustment programmes review);
  - Spain (incl. the financial sector programme review);
  - Cyprus (incl. probable review of the adjustment programme);
- Other Member States with (possible) financial stability difficulties.
- Preparation of the European Semester 2013 by providing guidance for the euro area by June (see Annex 4 for recommendations for the euro area 2011 and 2012).
- Monitoring of the implementation of Excessive Deficit Procedures (EDP) recommendations of euro area Member States bearing in mind the correction deadlines in 2013 (see Annex 2 for the current state of play of EDP);
- Ensuring the follow-up of the December European Council, particularly the Four Presidents Report "Towards a genuine Economic and Monetary Union" (see Annex 5 with an overview of the European Commission and European Council proposals for the future governance of EMU);
- Preparing and ensuring the follow-up of the:
  - February, Spring and June European Council/Euro Summits.
  - G7 meeting.
- Discussing IMF Global Policy Agenda strategic issues with relevance to the euro area.

2. Economic situation in the euro area

According to Eurostat the **GDP** for the euro area as a whole fell by 0.1% in the third quarter of 2012 compared to the previous quarter. Among the largest euro area economies Germany was growing in the second and the third quarters of 2012 (0.3% and 0.2% q-o-q), when the same figures were for France - 0.1% and 0.2%, for Italy - 0.7% and - 0.2% and for Spain - 0.4% and - 0.3%.

The European Commission's autumn 2012 forecast expects that the euro area GDP contracts by 0.4% in 2012. In 2013, a gradual return to modest economic expansion is projected, with an annual GDP growth of only 0.1%. In 2014, with an improved external environment, growth is expected to pick up to 1.4%.

According to OECD economic outlook of December 2012, the euro area is in a recession which is projected to persist into the early part of 2013, with weak GDP growth picking up to 0.6 % in 2013 and 1.6% in 2014. Ongoing fiscal consolidation holds back activity, but private demand will increase, as confidence and the functioning of the financial sector improve.

According to the ECB projections published in December 2012, the euro area GDP is expected to stabilise in the first half of 2013 and recover gradually thereafter, assuming that the financial market tensions do not intensify further. In annual average terms, euro area real GDP is expected to grow by between -0.9% and 0.3% in 2013 and between 0.2% and 2.2% in 2014. In 2013, a gradual pick-up in export growth, supported by external demand developments and improved competitiveness, is likely to provide a positive contribution to real GDP growth, as imports will remain subdued in the context of weak overall demand.

The euro area **unemployment** rate was 11.7% at the end of 2012. It's the highest rate since 1995. It went up by 1 percentage point in the course of 2012. This aggregate number includes sharp differences across Member States with the lowest rate in Austria (4.3%) and the highest rate in Spain (26.2%). The OECD projects that the unemployment rate will further increase in the coming years, to 11.9% in 2013 and to 12% in 2014, while the Commission expects it to peak at 11.8% in 2013 before falling back slightly to 11.7% in 2014.

According to the Commission, the Harmonized Consumer Price Index (HICP) **inflation** is expected to decline in the coming years; it projects an inflation rate of 2.5% for 2012, decreasing to 1.8% in 2013 and 1.6% in 2014. The key ECB interest rates remain unchanged at 0.75% for main refinancing operations and at 1.5% for marginal lending facility, according to the latest decision taken in December 2012 by the ECB Governing Council (next ECB meeting on 10 Jan 2013).

The ECB projects that the overall HICP inflation will decline from an average rate of around 2.5% in 2012 to 1.1% - 2.1% in 2013 and to 0.6%- 2.2% in 2014. The fall in inflation in 2013 primarily reflects the projected strong decline in energy price inflation and, to a lesser extent, food price inflation.

The OECD expects that the continuing high unemployment and a large margin of excess capacity will depress inflationary pressures, which will be at 1.6% in 2013 and 1.2% in 2014.

Despite the expected decline in most Member States' headline deficits over the forecast horizon, **government debt ratios** in the euro area for the years 2012 and 2013 are projected by the Commission to increase (from 88.1% of GDP in 2011 to 94.5% in 2013 and 94.3% in 2014). The OECD expects the debt in the euro area to reach 95.4% in 2013 and 96.3% in 2014.

Results of the European Commission analysis of 18 December 2012 on **current account deficits and surpluses** in the euro zone and EU

The following conclusions were made by the European Commission:

- It is **not possible** to establish causality **between deficits and surpluses** in any pair of EU Member States. There is no evidence that the strong export performance of surplus countries significantly crowded out the exports of the deficit countries. Most of the increases in the surpluses and deficits have been driven by **financial flows**, spurred by the convergence in interest rates following the euro introduction and by developments in the global financial markets. In the **absence of adequate financial market macro-supervision**, this resulted in credit-driven booms; reduction in savings and excessive investment in non-productive activities in the periphery; and excessive risk concentration in the financial system in the core countries.

- **External shocks** (e.g. the rapidly evolving competition from emerging countries) **appear to have been more relevant** for the intra-EU imbalances than usually appreciated. They have had different impacts on individual Member States; for example, though China competes with all EU economies, changes in world trade appear to have affected the deficit countries more. The **rebalancing on-going**; the trade imbalances between surplus and deficit countries in the euro area have declined considerably. **Most adjustment has taken place on the side of the deficit countries** through compression in consumption and investment and improvements in their competitiveness. There has also been a **reduction in surpluses**, **but it has been relatively modest** so far. However, favourable conditions for stronger domestic demand are in place in most surplus countries. While wages are set to increase relatively more in Germany and the country is expected to reduce its surplus, subdued domestic demand combined with deleveraging needs are exerting upward pressure on the Dutch surplus.

- **Structural reforms strengthening domestic** demand in the surplus countries **should be continued.** In particular, policy measures aimed at improving the functioning of specific sectors, such as services and financial intermediation would foster demand-based growth in the surplus countries. The study also mentions that appropriate financial supervision and the implementation of the recent decision on the single supervision mechanism (SSM) are key to ensure that savings are channelled to productive uses.

3. Recent developments in the Member States receiving EU financial assistance

- **Cyprus**: at its meeting of 13 December 2012, the Eurogroup stated that progress towards a macro-financial assistance programme has been made; however, no final agreement was reached. A draft MoU, which foresees significant financial, fiscal and structural adjustment, has been agreed at the staff level. The capital need of the financial sector will be defined in mid-January and the programme is expected to be agreed shortly after that.
- **Greece**: following the finalisation of the relevant national procedures and after having reviewed the outcome of the debt buy back operation**,** the Eurogroup on 13 December 2012 formally approved the second disbursement under the second economic adjustment programme, which amounts to €49.1bn to be paid out in several tranches. According to the Eurogroup, the debt buy back operation will lead to a substantial reduction of the Greek debt-to-GDP ratio. The Eurogroup confirmed that this should, together with the agreed Eurogroup initiatives of 27 November 2012 and full implementation of the adjustment programme, bring public debt back on a sustainable path, i.e. to 124% of GDP in 2020.
- **Ireland**: the IMF country report of 19 December 2012 accompanying the 8th review mission by the troika for disbursement of €0.8bn by EFSF/EFSM and €0.9bn by IMF states that the 2012 budget remains on track despite overruns in health and social welfare. Budget 2013 will target a deficit of 7.5% of GDP. Market conditions for Irish sovereign debt are much improved following the announcements of the ESM direct bank recapitalization instrument and of OMT. However, the feasibility of retroactive application of the ESM instrument for Ireland remains unclear as do the conditions for OMT qualification. Ireland's high public and private debt and uncertain growth prospects pose significant risk for the recently started market access, potentially hindering an exit from official financing at the end of 2013.
- **Portugal**: upon the 6th review mission for disbursement of €1.6bn by EFSF/EFSM and €0.9bn by IMF, the troika concluded on 19 November 2012 that fiscal consolidation efforts

are in line with the revised targets, with the government committed to the deficit target of 5 % of GDP in 2012 and 4.5 % of GDP in 2013. Revenue collection has been somewhat weaker than envisaged and fostering a more competitive economy remains imperative. While deleveraging in the banking system is on track, access to credit at remains difficult, particularly for exporting companies and SMEs.

- **Spain**: on 28 November 2012 the EC concluded that the restructuring plans of the four Spanish banks BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia are in line with EU state aid rules, enabling the use of EU funds as in line with the MoU. Thereafter, on 3 December 2012, the Spanish government formally requested the disbursement of close to €39.5bn of funds. On 5 December 2012 the ESM launched and priced notes, which were transferred to the bank recapitalisation fund of the Spanish government (FROB) on 11 December 2012. Results of an independent evaluation of capital needs of Spanish banks were published at the end of September 2012 estimating the needs close to €60bn.

Information on exact financing arrangements including commitments and disbursements for the member states listed above can be found on ECON homepage.

Annexes:

1. Key indicators for the euro area

2. Table on Excessive Deficit Procedures (EDP): state-of-play

3. Macro-economic imbalances for euro area Member States (scoreboard)

4. 2011 and 2012 Council Recommendations for the Euro Area

5. Overview of the European Commission and the European Council proposals for the future governance of EMU

Annex 1: Key indicators for the euro area

	2010	2011	2011(Q4)	2012(Q1)	2012(Q2)	2012(Q3)
Output						
Economic sentiment (indicator)	100.5	101.0	93.6	94.1	91.1	86.4
Industrial confidence (balance)	-4.7	0.1	-7.0	-6.6	-11.1	-15.5
GDP *(% ch. on prev. period)*	2.0	1.4	*-0.3*	*0.0*	*-0.2*	*-0.1*
Labour productivity *(% ch. on prev. period)*	2.5	1.2	*- 0.1*	*0.3*	*- 0.2*	--
Private consumption						
Consumer confidence (balance)	-14.2	-14.6	-20.6	-20.0	-19.7	-24.0
Private consumption *(% ch. on prev. period)*	0.9	0.1	*-0.5*	*-0.2*	*-0.4*	--
Investment						
Capacity utilisation (level, %)	75.8	80.5	79.7	79.8	79.7	77.9
Gross fixed capital formation *(% ch. on prev. period)*	-0.1	1.4	*-0.5*	*-1.2*	*-1.5*	--
Labour market						
Employment *(% ch. on prev. period)*	-0.5	0.3	*-0.3*	*-0.3*	*-0.0*	--
Compensation of employees per head *(nominal, % ch. on prev. period)*	1.7	2.1	*0.6*	*0.6*	*0.2*	--
Unemployment expectations (balance)	31.2	23.3	33.8	34.7	32.6	40.9
Unemployment rate (% of labour force)	10.1	10.2	10.6	10.9	11.3	11.5
International transactions						
World trade *(% ch. on prev. period)*	14.9	5.7	*0.5*	*0.8*	*0.3*	--
Trade balance (merchandise, billion €)	-14.6	-11.5	10.9	10.9	21.0	27.3
Current-account balance (billion €)	-2.0	8.9	12.8	21.6	28.1	15.3
Prices						
Consumer inflation expectations (balance)	8.1	25.8	25.6	25.7	23.1	25.3
Headline inflation *(HICP, % ch. on prev. year)*	1.6	2.7	*2.9*	*2.7*	*2.5*	*2.5*
Monetary and financial indicators						
Nominal interest rates (3 month)	0.81	1.39	1.50	1.04	0.69	0.36
Nominal interest rates (10 year)	2.78	2.65	1.99	1.88	1.54	1.42
Loans to households *(% ch. on prev. year)*	2.9	1.6	*1.6*	*0.6*	*0.2*	*0.1*
Nominal effective exchange rate *(% ch. on prev. period)*	-6.4	-0.2	*-1.4*	*-2.6*	*-1.3*	*-2.4*

Source: DG ECFIN, accessed 07.01.2013

Annex 2: Excessive Deficit Procedures (EDP): state-of-play

Member State	Reference year which triggered ongoing EDP[1]	Current deadline for deficit correction (date of adoption of corresponding EDP recommendation)	Year	EC forecast - Autumn 2012 (under no policy change scenario[2])		
				Deficit[3]	Debt[4]	Growth[5]
EURO AREA COUNTRIES						
Belgium	2009	**2012** (Dec 2009)	**2012**	-3.0	99.9	-0.2
			2013	-3.4	100.5	0.7
			2014	-3.5	101.0	1.6
Ireland	2008	**2015** (Dec 2010)	**2012**	-8.4	117.6	0.4
			2013	-7.5	122.5	1.1
			2014	-5.0	119.2	2.2
Greece	2007	**2016**(Dec. 2012)	**2012**	-6.8	176.7	-6.0
			2013	-5.5	188.4	-4.2
			2014	-4.6	188.9	0.6
Spain	2008	**2014** (Jul 2012)	**2012**	-8.0	86.1	-1.4
			2013	-6.0	92.7	-1.4
			2014	-6.4	97.1	0.8
France	2008	**2013** (Dec 2009)	**2012**	-4.5	90.0	0.2
			2013	-3.5	92.7	0.4
			2014	-3.5	93.8	1.2
Italy	2009	**2012** (Dec 2009)	**2012**	-2.9	126.5	-2.3
			2013	-2.1	127.6	-0.5
			2014	-2.1	126.5	0.8
Cyprus	2009	**2012** (Jul 2010)	**2012**	-5.3	89.7	-2.3
			2013	-5.7	96.7	-1.7
			2014	-6.0	102.7	-0.7
Netherlands	2009	**2013** (Dec 2009)	**2012**	-3.7	68.8	-0.3
			2013	-2.9	69.3	0.3
			2014	-3.2	70.3	1.4
Austria	2009	**2013** (Dec 2009)	**2012**	-3.2	74.6	0.8
			2013	-2.7	75.9	0.9
			2014	-1.9	75.1	2.1
Portugal	2009	**2014** (Dec 2009)	**2012**	-5.0	119.1	-3.0
			2013	-4.5	123.5	-1.0
			2014	-2.5	123.5	0.8
Slovenia	2009	**2013** (Dec 2009)	**2012**	-4.4	54.0	-2.3
			2013	-3.9	59.0	-1.6
			2014	-4.1	62.3	0.9
Slovakia	2009 (Dec 2009)	**2013** (Dec 2009)	**2012**	-4.9	51.7	2.6
			2013	-3.2	54.3	2.0
			2014	-3.1	55.9	3.0

[1] Year for which a deficit in excess of 3% of GDP was notified by the national authorities, or the year for which the national authorities notified a planned budget deficit in excess of 3%.
[2] See European Commission Autumn 2012 forecast publication, Box 1.6 (page 45) "Some technical elements behind the forecast".
[3] Table 36 of EC forecast.
[4] Table 42 of EC forecast.
[5] Table 1 of EC forecast.

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Member State	Reference year which triggered ongoing EDP[6]	Current deadline for deficit correction (date of adoption of corresponding EDP recommendation)	Year	EC forecast - Autumn 2012 (under no policy change scenario[7])		
				Deficit[8]	Debt[9]	Growth[10]
NON - EURO COUNTRIES						
Czech Republic	2009	**2013** (Dec 2009)	**2012**	-3.5	45.1	-1.3
			2013	-3.4	46.9	0.8
			2014	-3.2	48.1	2.0
Denmark	2009	**2013** (Jul 2010)	**2012**	-3.9	45.4	0.6
			2013	-2.0	44.7	1.6
			2014	-1.7	45.3	1.3
Latvia	2008	**2012** (Jul 2009)	**2012**	-1.7	41.9	4.3
			2013	-1.5	44.3	3.6
			2014	-1.4	44.9	3.9
Lithuania	2008	**2012** (July 2009)	**2012**	-3.2	41.6	2.9
			2013	-2.8	40.8	3.1
			2014	-2.3	40.5	3.6
Hungary	2003	**2012** (Mar 2012)	**2012**	-2.5	78.4	-1.2
			2013	-2.9	77.1	0.3
			2014	-3.5	76.8	1.3
Poland	2008	**2012** (Jul 2009)	**2012**	-3.4	55.5	2.4
			2013	-3.1	55.8	1.8
			2014	-3.0	56.1	2.6
Romania	2012	**2012** (Feb 2010)	**2012**	-2.8	34.6	0.8
			2013	-2.4	34.8	2.2
			2014	-2.0	34.8	2.7
UK	2008/09	**2014/15** (Dec 2009)	**2012**	-6.2	88.7	-0.3
			2013	-7.2	93.2	0.9
			2014	-5.9	95.1	2.0

EU Member States that are not subject to the EDP include five euro area countries: **Estonia, Finland, Germany, Malta and Luxembourg**, as well as two non-euro countries: **Bulgaria and Sweden**.

[6] Year for which a deficit in excess of 3% of GDP was notified by the national authorities, or the year for which the national authorities notified a planned budget deficit in excess of 3%.
[7] See European CommissionAutumn 2012 forecast publication, Box 1.6 (page 45) "Some technical elements behind the forecast".
[8] Table 36 of EC forecast.
[9] Table 42 of EC forecast.
[10] Table 1 of EC forecast.

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Annex 3: Macro-economic imbalances in the euro area

	External imbalances and competitiveness					Internal imbalances					
Year 2011	3 year average of **Current Account Balance** as % of GDP	**Net International Investment Position** as % of GDP	% Change (3 years) of **Real Effective Exchange Rate (HICP deflators)**	% Change (5 years) in **Export Market Shares**	% Change (3 years) in **Nominal ULC**	% y-o-y change in deflated **House Prices**	**Private Sector Credit Flow** as % of GDP	**Private Sector Debt** as % of GDP	**General Government Debt** as % of GDP	3 year average of **Unemployment**	% y-o-y change in **Total Financial Sector Liabilities** non-consolidated
Thresholds	**-4/+6%**	**-35%**	**±5% & ±11%**	**-6%**	**+9% & +12%**	**+6%**	**15%**	**160%**	**60%**	**10%**	**16.5%**
Belgium	-0.3	65.7	-0.5	-10.2	6.2	-0.1	11.6	236	98	7.8	4.7
Germany	5.9	32.6	-3.9	-8.4	5.9	1.4	4.8	128	81	6.9	2.1
Estonia	2.8	-57.8	0.8	11.1	-6.2	3.3	6.8	133	6	14.4	-4.4
Ireland	0.0	-96.0	-9.1	-12.2	-12.8	-15.2	4.0	310	106	13.3	-0.6
Greece	-10.4	-86.1	3.1	-18.7	4.1	-5.1	-5.5	125	171	13.2	-3.4
Spain	-4.3	-91.7	-1.3	-7.6	-2.1	-10.0	-4.1	218	69	19.9	3.7
France	-1.6	-15.9	-3.2	-11.2	6.0	3.8	4.0	160	86	9.6	7.3
Italy	-2.9	-20.6	-2.1	-18.4	4.4	-2.0	2.6	129	121	8.2	3.8
Cyprus	-8.4	-71.3	-0.9	-16.4	8.8	-8.5	16.1	288	71	6.6	-0.2
Luxembourg	7.5	107.8	0.8	-10.1	12.5	1.5	2.5	326	18	4.8	11.3
Malta	-4.3	5.7	-3.0	11.7	5.8	-2.3	2.2	210	71	6.8	1.4
Netherlands	7.5	35.5	-1.6	-8.2	5.8	-4.0	0.7	225	66	4.2	7.2
Austria	2.2	-2.3	-1.0	-12.7	5.9	-8.0	4.1	161	72	4.4	-0.3
Portugal	-9.1	-105.0	-1.9	-9.5	0.9	-3.6	-3.2	249	108	11.9	-0.7
Slovenia	-0.4	-41.2	-0.3	-6.1	8.3	1.0	1.9	128	47	7.1	-1.3
Slovakia	-2.1	-64.4	4.3	20.9	4.4	-5.6	3.3	76	43	13.4	1.2
Finland	0.6	13.1	-1.3	-22.9	9.1	-0.3	4.6	179	49	8.1	30.8

Source: European Commission - ECFIN AMR 2013

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Annex 4: 2011 and 2012 Council recommendations for the Euro Area

Council Recommendations 2011	Council Recommendations 2012
	1. Strengthen the working methods of the Eurogroup to allow it to take responsibility for the aggregate policy stance in the euro area, effectively responding to changes in the economic environment, and to lead the coordination of economic policy in the context of the strengthened surveillance framework which applies to the euro area Member States.
	2. Intensify policy cooperation in the Eurogroup by sharing information and discussing budgetary plans and the plans of major reforms with potential spillovers effects on the euro area. Ensure that such reforms are undertaken that are necessary for a stable and robust euro area, including the implementation of the recommendations which the Council has addressed to individual euro area Member States and which, in addition to addressing challenges at national level, have an impact on the euro area as a whole.
1. Strictly adhere to the **budgetary targets** set out in their 2011 Stability Programmes as well as the Memoranda of Understanding in Member States receiving EU/IMF financial assistance and, where applicable, reinforce consolidation efforts in line with the opinion delivered by the Council. In particular, ensure adequate fiscal efforts with a view to correcting excessive deficits and approaching medium-term budgetary objectives. Use any fiscal windfalls to accelerate adjustment. This should also help to **improve public debt dynamics**.	**3. Strengthen fiscal discipline and fiscal institutions** at both national and sub-national levels to enhance market confidence in the medium and long-term sustainability of public finances in the euro area. Following the agreement by the euro area Heads of State or Government in July and October 2011 and on 2 March 2012, advance the transposition of Directive 2011/85/EU to the end of 2012 and strengthen **fiscal governance** further, in particular by introducing in the national legislation of all euro area Member States the rules for balanced budget in structural terms and the automatic correction mechanisms.
2. Ensure fiscal discipline at both national and sub-national levels, notably by introducing or reinforcing sufficiently **strong and binding fiscal frameworks**. **3**. Continue to implement **reforms to social security systems** that ensure fiscal sustainability with due regard to the adequacy of pensions and social benefits, notably by aligning pension systems with the national demographic situation.	**4**. Based on the European Council Conclusions of 1-2 March 2012, **ensure a coherent aggregate fiscal stance** in the euro area by pursuing fiscal consolidation as set out in Council recommendations and decisions, in line with the rules of the Stability and Growth Pact, which take into account the country-specific macro-financial situations. Member States affected by significant and potentially rising risk premia should limit deviations from the nominal balance targets even against worse-than-expected macroeconomic conditions; other Member States should let the automatic stabilisers play along the adjustment path assessed in structural terms and stand ready to review the pace of consolidation should macroeconomic conditions deteriorate further. Composition of government expenditure and revenues should reflect the growth impact of spending items and revenue sources. In particular, all the available **budgetary margins should be used to foster public investment in the euro area**, including by taking into account cross-country differences in the cost of funding.

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4. Improve the functioning and stability of the **financial system**, following up immediately on the forthcoming EU-wide stress tests to ensure that the banking sector continues to strengthen its resilience to possible further losses or funding constraints and that non-viable financial institutions are able to restructure or exit the market without creating undue tensions on financial markets.	5. Take action to improve the functioning and stability of the **financial system** in the euro area. Accelerate the steps towards a more integrated financial architecture, comprising banking supervision and cross-border crisis resolution.
5. Pursue further **tax reforms** which give priority to growth- friendly sources of taxation while preserving overall tax revenues, in particular by lowering taxes on labour to make work pay; when reducing public expenditure, protect growth-enhancing items such as spending on research and development, education and energy efficiency; where necessary **adjust wage setting arrangements and indexation mechanisms**, in consultation with social partners and in accordance with national practices, so as to ensure that wages are evolving in line with productivity, competitiveness and the employment situation.	6. Implement **structural reforms, which also promote flexible wage adjustments**, and which — together with a differentiated fiscal stance — would promote an orderly unwinding of intra-euro area macroeconomic imbalances and thus growth and jobs. This would include action at national level which reflects the country-specific situation and takes account of the Council recommendations to individual euro area Member States.
6. Introduce further reforms to **enhance competition in service sectors**, in particular by removing unjustified restrictions on professional services, retailing and network industries.	
7. Fully implement the commitments made in the **Euro Plus Pact** so as to enhance growth, competitiveness and employment within the area.	

Annex 5: Overview of the European Commission and the European Council proposals for the future governance of EMU

<table>
<tr><th colspan="6">The blueprint for a deep and genuine EMU of the Commission (30.11.2012)</th></tr>
<tr><td colspan="2">Short term:
• a full deployment of the economic governance tools;
• creation of a Single Supervisory Mechanism (SSM);
• creation of a "Convergence and Competitiveness Instrument" (CCI) to provide financial support for the implementation of structural reforms.</td><td colspan="2">Medium term:
• strengthened collective conduct of budgetary policy;
• deeper coordination in the field of taxation and labour markets;
• creation of an EMU Treasury within the Commission;
• common issuance of eurobills (short term government debt with maturity of up to 1 or 2 years).</td><td colspan="2">Long term:
• the establishment an autonomous euro area budget;
• common issuance of public debt.</td></tr>
<tr><td colspan="6">Such full EMU would realise 4 building blocks of EMU: banking union, fiscal union, economic union and democratic legitimacy and accountability. The latter should be ensured by the enhanced involvement of the EP as the only Parliament for the EU and the euro and by extended competencies of the EU Court of Justice.</td></tr>
<tr><th colspan="6">The conclusions of the European Council (14.12.2012)</th></tr>
<tr><td colspan="3">The European Council agreed on a roadmap for the EMU completion, beginning in a similar way as the Commission's blueprint with:
• completion, strengthening and implementation of the new enhanced economic governance;
• the adoption of the SSM;
• adoption of the new rules on banking recovery;
• resolution of banks and on deposit guarantees to be completed by the establishment of a single resolution mechanism.</td><td colspan="3">By the next European Council meeting will be examined:
• the coordination of national reforms;
• the social dimension of EMU;
• the feasibility and modalities of mutually agreed contracts for competitiveness and growth, and solidarity mechanisms and measures to promote the deepening of the Single Market.</td></tr>
<tr><td colspan="6">The European Council stated in a very general way that throughout this process, democratic legitimacy and accountability will be ensured.</td></tr>
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