French German roadmap for the Euro Area

To ensure a strong economy, the European Union needs a strong currency union. This currency is the Euro, which is open to all Member States and which nearly all Member States intend to adopt in accordance with the EU treaties. Sharing the same currency entails specific needs in terms of economic coordination and integration.

As a consequence, France and Germany have decided to propose key steps in the following roadmap to strengthen and deepen the Euro area further, and make it a genuine economic union.

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**European Stability Mechanism (ESM)**

As a first step, we need to change the intergovernmental Treaty of the ESM in order to include a common backstop instrument, enhance the effectiveness of precautionary instruments for Member States and enhance its role in assessing and monitoring future programs. And in a second step, we can then ensure the incorporation of the ESM into EU law, preserving the key features of its governance.

Further work should be undertaken on an appropriate framework for liquidity support on resolution.

Conditionality remains an underlying principle of the ESM treaty and all ESM instruments but adapted to each instrument.

We recall that any decision to provide ESM stability support to a euro area Member State includes a debt sustainability analysis (DSA).

To improve the existing framework promoting debt sustainability and to improve their effectiveness, we should start working on the possible introduction of Euro CaCs with single-limb aggregation. When appropriate, the ESM may facilitate the dialogue between its Members and private investors, following IMF practice.

The ESM should have an enhanced role in designing and monitoring programmes in close cooperation with the Commission and in liaison with the ECB and based on a compromise to be found between the Commission and the ESM. It should have the capacity to assess the overall economic situation in the Member States, contributing to crisis prevention. This should be done without duplicating the Commission’s role and in full respect of the treaties.

Whenever a Member State requests ESM financial assistance, it may also request financial assistance from the IMF.

The ESM could be renamed.

**ESM credit line**

We should make existing precautionary instruments more effective. Such support would need to involve conditionality in the form of more effective ex-ante eligibility criteria assessing the sound economic and financial performance of the member state and respect the limits of the EU treaties and national constitutional requirements. This conditionality would be two-fold: compliance of ESM Member States with ex ante eligibility criteria regularly monitored for beneficiary Member States and, at the moment the facility is to be drawn, a formal commitment
from the eligible beneficiary Member States to continuous adherence to the ex-ante eligibility criteria.

As a further development of the precautionary ESM credit line (PCCL), stability support could be used in case of risk of liquidity shortages where ESM Members are risk facing a gradual loss of market access, without the need for a full program.

Such support could only be granted to economically and fiscally sound Member States.

We will set up a process to finalize a term-sheet by December.

**Banking Union**

As regards the Banking Union, the ECOFIN Council Roadmap of June 2016 recognized that further steps will have to be taken in terms of reducing and sharing risks in the financial sector, in the appropriate sequence.

**NPLs**

For new NPLs, we support the proposal of the Commission and ECB guidance on how to address new NPLs by ensuring appropriate provisioning. We should make all efforts for the adoption of the Commission proposal before the end of 2018.

For existing NPL stock:

- There should be an aim of a 5% gross NPLs and 2.5% net NPLs for all SRB and all other banks. Competent authorities will define individual strategies for the reduction of NPL stocks for relevant banks.
- There should be appropriate monitoring by SSM and EBA to assess progress.
- Member states/banks that do not reach these goals will undertake specific efforts also involving their insolvency/debt enforcement regimes to reach these goals in a short period of time.

**Insolvency regimes**

Union legislation on Accelerated Extrajudicial Collateral Enforcement (AECE) offering additional options for improvement of collateral enforcement should be adopted.

**Banking package**

The Banking Package, as agreed on by the ECOFIN Council in May 2018, should be adopted before the end of 2018. SRB banks should build up subordinated bail-in buffers steadily in line with the 2024 targets and 2022 intermediate targets.

**Anti-money laundering**

For anti-money laundering, we need a set of substantive core criteria which reliably measure the money-laundering-risks that exist in the banking sector. In addition, we need a robust monitoring process reporting on the effective implementation of these criteria. Both, criteria and monitoring process, should be developed by December 2018 by European Institutions, including SSM, and Member States, with France and Germany providing common input. It is essential that such process is not only of formal nature, but materially reduces risks stemming from AML-non-compliance.

**Backstop**

The ESM should be the backstop to the Single Resolution Fund. It should be provided in the form of a credit line. Based on sufficient risk reduction, its entry into force should be earlier than 2024.

The size of the backstop should be close to but not bigger than the size of the SRF. The backstop should replace the direct recapitalization instrument.
Fiscal neutrality over the medium term will be ensured especially through repayment of the common backstop via extraordinary ex-post contributions by the banking sector in three years with a potential extension of two years.

Provided that there is sufficient progress in all relevant fields of risk reduction, to be assessed by the relevant authorities (Commission, SSM and SRB), the entry into force of the backstop should be brought forward before 2024. In 2020, the relevant authorities will provide a report on the trend of NPLs and the building up of subordinated bail-in buffers. On that basis and if risk reduction is satisfactory, the final decision on an accelerated entry into force of the backstop should be taken by the Eurogroup/ECOFIN / European Council.

We will assess the size of the SRF in the context of the end 2018 review and the need to review the intergovernmental agreement to anticipate the backstop.

A term sheet with the precise features of the SRF backstop should be developed for political endorsement by December 2018, based on the work done in the relevant expert group so far. The current governance/decision making-process, meaning a decision by the ESM Board of Governors/Directors, will apply and continue to respect national constitutional requirements, while ensuring an effective, credible and rapid decision-making of the ESM backstop to fit the timing of a resolution case.

No country should be excluded from accessing the backstop.

**EDIS**

We reaffirm the importance of strengthening the Banking Union with a view to its completion. This means, on all elements of the ECOFIN Council Roadmap of June 2016, both risk reduction and risk sharing in the appropriate sequence. The work on a Roadmap for beginning political negotiations on EDIS could start after the European Council in June.

**SBBS**

The Commission proposal for Sovereign Bond Backed Securities (SBBS) has significantly more disadvantages than potential benefits and should not be further pursued.

**Capital Markets Union**

We commit to making decisive progress towards a Capital Markets Union, in order to foster the integration and strengthening of EU capital markets where adopting a European approach has a real added value while adhering to the principles of proportionality and subsidiarity. This will help foster financial stability, thereby increasing the resilience of the financial system and the economy at large. In particular, this includes joint work towards a successful conclusion on the following key files.

We support the introduction of a Pan-European Personal Pension Product, as well as the “Insolvency” legislative package, on which we aim to adopt a general approach. Further progress on additional insolvency issues should be made. As a first step Germany and France should endeavor to enhance the convergence of their insolvency frameworks. In the interest of functioning capital markets and in light of Brexit, Germany and France also aim for an adoption of the EMIR review by fall 2018 and a general approach on the investment firm review by end 2018.

By the means of a joint German-French position we commit to bring forward important elements of sustainable finance and digitization by end 2018.

In order to strengthen EU capital markets and to foster convergence of supervisory practices, Germany and France will continuously work together to improve certain elements of the ESAs, through targeted adjustments of their governance and to achieve a level playing field across the EU, while focusing on areas that are of a significant cross-border nature and avoiding additional
bureaucracy. Good functioning ESAs are essential to deliver on our objective to have a successful Capital Markets Union.

**Instruments to ensure convergence and stabilization in the EMU**

**Eurozone budget**

We propose establishing a Eurozone budget within the framework of the European Union to promote competitiveness, convergence and stabilization in the euro area, starting in 2021.

Decisions on the funding should take into account the negotiations on the next Multiannual financial framework. Resources would come from both national contributions, allocation of tax revenues and European resources. These could include: the proposed reform delivery tool from the EU budget, an FTT according to the French model, resources from more efficient EU-wide taxation of the digital economy, and a share of revenue in connection with a Common Corporate Tax Base.

The Eurozone budget would be defined on a pluriannual basis.

The purpose of the Eurozone budget will be two-fold:

- Competitiveness and convergence would be delivered through investment in innovation and human capital. It could finance new investments and come in substitution of national spending.

- We acknowledge that there is a need for a genuine macroeconomic stabilization function in the Eurozone, without transfers. Germany and France are in the process of working on different options. Two options have already been identified, a temporary suspension of the contribution to the Eurozone budget for countries hit by a significant shock, which should be covered by the ESM and reimbursed over time by those countries or a European Unemployment Stabilization Fund.

France and Germany underline that sound public finances at national level are key for a resilient Eurozone. Priority should be given to reducing debt to GDP ratio levels.

Germany and France consider the Financial Transaction Tax to be a suitable instrument for the supplementary taxation of the financial sector. We aim to bring negotiations at the EU level to a successful conclusion. We want to discuss with our European partners so that we can advance and finalize the process swiftly. The model should be France’s existing financial transaction tax, whose primary focus is taxing transactions of domestically issued shares. It has not led to evasive shifts to other financial products or to disruptions on financial markets.

France and Germany consider that challenges raised by the digital economy should efficiently and properly be addressed in the tax area, both at the EU and OECD level with a view to reaching an agreement at the EU level by the end of 2018.

Strategic decisions on the Eurozone budget will be taken by the Eurozone countries. Decisions on expenditures should be executed by the European Commission.

**European Unemployment Stabilization Fund**

Every Eurozone member state should have functioning unemployment protection schemes, a social safety net and appropriate minimum wages. Minimum standards for unemployment protection should be accomplished within the member states. Europe also needs to tackle the issue of wage dumping in a determined manner.

With a view to stabilizing the social safety in the Eurozone, national systems for unemployment insurance should be balanced over the cycle and build up reserves in good times.

In a severe economic crisis the national systems could then be supplemented by a stabilization fund at the Eurozone level.
The fund could lend money to a national social-security system in the midst of an economic crisis which is resulting in significant job losses.

Once the economic crisis is over, the country is obliged to pay back the funds it borrowed.

France and Germany will set up a working group with a view to making concrete proposals by the European Council of December 2018.