

Brussels, 22 June 2016
ecfin.cef.cpe(2016)358763

To the members of the Eurogroup

Subject: Eurogroup of 16 June 2016

Dear Colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 16 June 2016 in Luxembourg. Besides Vice-President Valdis Dombrovskis, Commissioner Pierre Moscovici, ECB's Executive Board Member Benoit Coeuré, and ESM Managing Director Klaus Regling, we welcomed Christine Lagarde, Managing Director of the IMF, who joined us for the discussions on the IMF Article IV review of the euro area.

1. Inflation and exchange rate developments

As customary, we briefly exchanged views on inflation and exchange rate developments over the past half year on the basis of an assessment by the Commission and the ECB. The Commission explained that the very low level of inflation was largely due to falling energy and commodity prices but also to weak domestic price pressures. Medium-term inflation expectations had weakened, though the risks to the inflation outlook had become more balanced. The ECB explained that base effects were expected to materialise in late 2016 and early 2017 and would contribute to a pick-up of headline inflation rates. The monetary policy measures adopted by the ECB are supporting the pick up in inflation. As regards exchange rate developments, the Commission explained that "flight to safety" flows could be observed over the past months and that monetary policy and political factors had played an important role in the euro's exchange rate against other major currencies.

We broadly concurred with the views of the Commission and the ECB. We agreed that we would return to the issue of exchange rate developments in September together with the G7 meeting preparations, while inflation developments would be reviewed in November at the time of the publication of the Commission Autumn forecasts.

2. Thematic discussions on growth and jobs – pension sustainability in the euro area

We exchanged views on the sustainability of pension reforms, in the context of our thematic discussions for growth and jobs. A first discussion had already taken place at the Eurogroup meeting of December 2015. The Eurogroup had asked the Commission to prepare alternative projections, including on demographic developments and total factor productivity.

The Commission presented the risks to the sustainability of pension systems under more adverse demographic or macroeconomic assumptions which are substantial in a number of euro area countries. It highlighted the benefits of automatic adjustment mechanisms as well as the usefulness of flanking policies. It welcomed the adoption of common principles by the Eurogroup to guide national reform efforts and indicated its commitment to support further work by assessing developments in the field of pensions with reference to such common principles, within its usual surveillance process.

We welcomed the Commission's note and the proposed common principles derived thereof. In particular, the importance of flanking policies was highlighted. It was also noted that the implementation of the suggested common principles, in particular the introduction of automatic mechanisms, had to take due account of the country-specific context.

We agreed on the set of common principles for the sustainability of pension systems in the euro area and adopted a statement to this effect (see Annex). We agreed to revert back to the matter in the first half of 2017.

3. IMF Article IV review of the euro area

The International Monetary Fund presented the outcome of its Article IV mission to the euro area. The concluding statement focuses on lifting investment and growth and overcoming challenges to the cohesion of the euro area. Ministers broadly concurred with the Fund's economic outlook, which is now closely in line with those of the Commission and the ECB. The Fund highlighted a number of risks, notably related to current political developments and their potential impact on the euro area's ability to forge common solutions to common challenges. The policy mix advocated by the Fund rests upon four pillars: (i) continuation of accommodative monetary policy, (ii) incentivisation of structural reforms inter alia through further benchmarking, linked to (iii) a stronger enforcement of fiscal rules and the use of a central fiscal capacity to boost investments in areas of common interest and (iv) strengthening the banking sector.

The risks and the policy concepts highlighted by the Fund prompted a rich debate on the challenges and priorities facing the euro area and the European Union. As particular grounds for optimism, I noted that economic data is clearly showing that our economic recovery remains on track; this results from appropriate monetary and fiscal stances at the euro area level and from past economic reforms in a number of Member States. We also noted the substantial progress achieved in completing the institutional architecture of the euro area, notably in the area of banking

union. This track record of working together towards solving common challenges is part of our strength. Ministers all shared a sense of the importance of bringing Europe closer to its citizens and showing tangible benefits. Some concrete examples of areas where central incentivisation might be usefully considered were mentioned, such as climate change, security and immigration. We observed a minute of silence in memory of MP Jo Cox, having learnt about her tragic death in the midst of our proceedings.

4 (a). Eurogroup work programme for the second half of 2016

We adopted the Eurogroup's work programme for the second half of 2016, without amendments to the version prepared by the EWG.

Yours sincerely,

Jeroen DIJSSELBLOEM

**Eurogroup statement – Thematic discussions on growth and jobs
Common principles for strengthening pension sustainability**

The Eurogroup endorses, in the context of its thematic discussions on growth and jobs, a set of common principles for strengthening the sustainability of pension systems in the euro area.

The Eurogroup considers that significant progress has been achieved in improving pension sustainability in the euro area. However, it also acknowledges that considerable risks remain in many Member States, especially over the medium term. In particular, pension expenditure projections are sensitive to the underlying macroeconomic and demographic assumptions. Against this background, further policy action is needed to strengthen the resilience of public pension systems to adverse demographic and macroeconomic developments and to guard against the risk of reform reversal.

The Eurogroup underlines that in times of high public debt, the importance of pension sustainability for the euro area from a financial, economic and social point of view renders developments in this field a matter of common concern in the euro area. In the context of interlinkages in the monetary union, adverse cross-border spill-overs may arise from unsustainable national pension systems. Developing common principles for pension reforms in the euro area is therefore beneficial, while recognising that country specificities influence the features of national pension systems.

Overall, the Eurogroup considers that the sustainability of pension systems, while safeguarding the adequacy of old-age incomes, is a clear policy priority for euro area Member States.

The Eurogroup thus endorses the following common principles, which should guide Member States when implementing reforms in this field:

- **Safeguard against demographic and macroeconomic risks:** reforms should focus on systematically increasing the resilience of public pension systems against risks from demographic change or macroeconomic shocks. In particular, the introduction of automatic mechanisms appropriately designed at Member State level has been shown to be an effective tool for dealing with the effects of demographic change, specifically the slow-moving but significant increases in life expectancy.
- **Flanking policies:** pension reform should be complemented by flanking policies so as to improve the sustainability of the pension system, while ensuring the adequacy of pensions. These policies should seek to extend working lives and thereby boost retirement incomes, through measures to increase older people's employability as well as restricting early pathways out of the labour force. The provision of complementary means of savings for retirement should also be explored.
- **Broader reforms to strengthen growth and employment:** longer working lives should be accommodated without higher expenditure on non-pension benefits. Effective policies need to be enacted to ensure that the entire work force is put to the fullest possible use. Workplaces should adapt to maximise the productivity of a heterogeneous workforce, while policies to boost productivity and potential growth should support the impact of pension reforms on sustainability more broadly.
- **Anchoring political and societal support:** the implementation of pension reforms has far-reaching consequences for individuals as well as the macro-economy and has implications for intergenerational equity. Societal and political support is essential for the lasting success of reforms. In this context, it is particularly important to establish a common understanding of the challenges pension systems face, as well as a constructive dialogue and involvement of the relevant stakeholders, and an appropriate phasing in of the reforms.

The Eurogroup also approves these common principles as a reference point for reviewing national reform efforts to strengthen the sustainability of pension systems for euro area Member States. The Eurogroup thus invites the Commission to assess developments in this field within its usual surveillance processes, with a view to allowing periodic monitoring by the Eurogroup. The Eurogroup also invites its preparatory committees and the Commission to explore the development of appropriate benchmarks based on these common principles, and report back to the Eurogroup in the first half of 2017.