Brussels, 15 June 2019

To Mr Donald Tusk, President of the Euro Summit

Dear President,

I would like to inform you that, following the mandate received from the Euro Summit of 14 December 2018, the Eurogroup in inclusive format continued working towards a significant strengthening of the EMU on the basis of the comprehensive agreement endorsed by Leaders. We have made significant progress on the following priority areas: the budgetary instrument for convergence and competitiveness, the ESM Treaty and strengthening the Banking Union.

First, we have 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, we have reached a broad agreement on revising the ESM Treaty provisions to implement the agreement reached in December 2018 on the common backstop for bank resolution\(^1\), the precautionary instruments, the cooperation between the ESM and the European Commission within and outside programmes, debt sustainability issues and institutional matters (see annex). We also welcomed the progress made on related legal documentation while acknowledging that further

\(^1\) We note that Finland maintains parliamentary reservations on Articles 18A(5) and 18A(6) and that Estonia maintains a reservation on Article 18A(6).
work will continue in the second half of the year to align it with the revised ESM Treaty and further specify its provisions, which would then allow to conclude an agreement on the full package in December 2019. The Commission and the ESM informed the Eurogroup on their progress on a common methodological working document on Debt Sustainability Assessment (DSA) to be finalised also by December 2019. We expect the ratification procedures of the ESM Treaty to start as soon as the full package of documents related to the ESM reform is finalised. 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.

Third, we welcomed the progress in the discussions on the further strengthening of the Banking Union, including through a European deposit insurance system and take note of the report of the Chair of the High Level Working Group. Progress was made on shaping a clear view on what the key elements of the steady state Banking Union could look like and on the principles that should guide the further strengthening of the Banking Union. We recognise 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