Eurogroup
The President

Brussels, 18 March 2024

Dear President,

I am writing to you to inform you about the work that has taken place in the Eurogroup since the Euro Summit in October and to outline our upcoming work priorities.

I am pleased to share with you our agreement on the future of the Capital Markets Union (CMU), which responds to the mandate the Euro Summit issued a year ago. This agreement includes a comprehensive set of actions and measures endorsed by all Eurogroup Ministers in an inclusive format, which constitute a solid foundation for advancing the CMU agenda during the next institutional cycle. Creating a well-functioning and effective single market for capital through advancing the CMU is a necessity for Europe. The Eurogroup in inclusive format will remain seized of this initiative and its follow-up.

The CMU is one of the key components of our renewed focus on euro area competitiveness, which is imperative to respond to the profound shifts occurring in the global economic landscape. Energy prices, evolving trade patterns, skills and innovation are other key topics, which we have recently discussed and are planning to address in the coming months with a view to contributing to a wider debate on competitiveness in the EU.

We continued our close coordination of fiscal policies in the context of the agreement on the new EU fiscal framework, which we see as a significant achievement. To facilitate the transition to the new framework we agreed broad fiscal policy orientations for next year. Ministers remain committed to phasing out the remaining emergency energy support measures this year as part of a restrictive aggregate fiscal stance. Looking to 2025, Ministers agreed that an overall slightly contractionary budgetary stance at the euro area level is appropriate, informed by the latest available information.

We also reviewed the progress in convergence and efforts made by Bulgaria on the path towards adopting the euro.

Further details on our discussions are provided below.

Growth is forecast to rebound and inflation to ease

Economic activity has been subdued in recent quarters, with the beginning of 2024 starting on a weaker footing than originally expected. Nevertheless, there are several positive signs pointing towards a potential acceleration of growth this year and next. A standout feature of our economy remains the resilient labour market. We are witnessing continued job creation, with unemployment rates again at historic lows and wages on the rise. Additionally, a rapid decrease in inflation and the expectation of more favourable financing conditions are poised to stimulate consumption, investment, and economic growth. Despite these promising developments, the economic outlook is not without challenges and remains subdued. Geopolitical tensions contribute to uncertainty and will require agility and close monitoring of the situation. Nonetheless, with the underlying strength of our economy and coordinated policy measures, we remain confident about our ability to address any adverse scenarios that may materialise.

Fiscal policy is on a stable course during the transition to the new framework

Well-coordinated fiscal policies have served us well in the past, enabling us to navigate through numerous challenges. Such coordination becomes even more critical during our transition to a new EU fiscal framework. The political agreement on this framework represents a historic achievement, crucial for the coordination of budgetary policies in the EU and in the euro area. In addition to adhering to the EU fiscal framework, euro area countries will continue to benefit from additional coordination mechanisms. These mechanisms – the assessment of draft budgetary plans and monitoring of the aggregate fiscal stance of the euro area – will remain in effect and will continue to play an important role in euro area policy coordination.

With regard to budgetary policy this year, we will continue to phase-out remaining energy support measures as soon as possible and to use the related savings to reduce government deficits.

To support the transition to the new fiscal rules, and to demonstrate our commitment to adhering strictly to the new framework, we have agreed, ahead of its entry into force, on a broad approach to the fiscal policy stance in the euro area for 2025 with ministers deeming that a slightly contractionary stance was appropriate. This early consensus aims to facilitate budgetary preparations for next year and the submission of draft budgetary plans in the autumn. The goal is to provide certainty and a stable anchor for fiscal policy during this period of transition.

A contractionary aggregate stance both this year and in 2025 remains appropriate in light of the current macroeconomic outlook, the need to continue to enhance fiscal sustainability, and to support the ongoing disinflationary process. Policies should also remain agile in view of the prevailing uncertainties. In parallel, we reiterate our commitment to reforms, investment, and high-quality public spending.

The Eurogroup is strongly committed to taking decisive steps towards the Capital Markets Union

The Eurogroup in inclusive format responded to the March 2023 call from Leaders to take forward the Capital Markets Union in a determined manner. We listened to practical insights from industry and international organisations and held regular and constructive discussions over the last twelve months, with a high level of engagement from all Ministers. Our discussions over the past year have confirmed that urgent action is required to ensure that Europe does not fall further behind globally in terms of competitiveness, growth, and prosperity for its citizens. The result is an ambitious and comprehensive statement that provides guidance on thirteen priority measures across three key areas - Architecture, Business and Citizens - for the next legislative term.

The delivery of the elements within the statement will help to ensure globally competitive, deep and liquid capital markets in each Member State and the EU as a whole, to provide funding to our businesses, no matter their size, and allow them to thrive. Targeted actions have also been included with the aim of offering broader and more attractive investment, pension and cross-border savings opportunities for our citizens.

In terms of architecture, it is clear that we need a regulatory and supervisory framework which is fit for purpose. Our discussions indicated that any follow-up initiatives in areas such as supervision should be supported by thorough impact assessments. Our statement also includes measures which will require cooperation between different parts of our national administrations, such as national corporate insolvency frameworks and the harmonisation of accounting frameworks, to ensure measures are implemented in a consistent fashion.

The Eurogroup in inclusive format will regularly exchange best practices and share information on national initiatives to deepen capital markets. At the same time, we invite the Commission, in full respect of its right of initiative, to consider bringing forward the necessary proposals as early as possible during the next legislative term.

It is important to recognise that a number of Ministers were keen to see capital markets integration moving even further and faster ahead. However, the agreed measures set out a common vision for a stronger Capital Markets Union for the benefit of all. In endorsing the statement, Member States have agreed to take on more responsibility for the development of their national capital markets and the Capital Markets Union as a whole.

With our statement on the future of the Capital Markets Union, we want to signal our strong commitment to taking the necessary next steps towards a genuine single market for capital, which we consider of critical importance for raising EU competitiveness. We are mindful that an important complementary element, the Banking Union, still remains to be completed. In this context, we stress the need to finalise the reform of the European Stability Mechanism (ESM) through the ratification of the Treaty in all Member States and set up the agreed common backstop to the Single Resolution Fund (SRF).

Competitiveness requires renewed focus

Competitiveness is essential for sustaining growth, living standards of our citizens, and achieving the green transition. The evolving geo-economic landscape necessitates a renewed focus on and a fresh approach to competitiveness. This concerns the EU as a whole, but it is of particular relevance for the countries sharing the single currency. With this in mind, we have launched a series of discussions to tackle the emerging challenges related to innovation and productivity, changing trade patterns and our place in the global economy as well as adapting our economic structures to emerging opportunities. In our initial discussions, we underscored the importance of strengthening the Single Market, including deepening the Capital Markets Union, completing the Banking Union and reducing regulatory burdens on companies. Energy prices have been identified as a critical factor affecting our competitiveness. There is a consensus on the need for enhanced resilience to price volatility and reduced energy costs through the development of renewable energy sources, as well as better coordination, interconnections and market integration at the European level. Our future discussions will aim to identify best practice and areas that can best improve the competitiveness of the euro area.

The debate on euro adoption continues

The euro is not only the symbol of European integration, but a robust pillar of the economic strength of our economies, the value of which cannot be overestimated at times of turbulence in the global economy. This is best illustrated by the ongoing discussions on the introduction of the euro in the EU Member States which are still to introduce the common currency. We have been monitoring the preparations of Bulgaria on its paths towards euro adoption, commending the progress made so far and encouraging continued efforts towards convergence and the implementation of ERM II post-entry commitments. This is especially significant given that progress has been achieved despite the multiple challenges of recent years that have impacted our economies, including high inflationary pressures as a result of the pandemic and the war on Ukraine. Euro area accession is based on an established and impartial rules-based framework and the euro area is open to all Member States that fulfil the requirements. In this context, we look forward to the upcoming assessment of convergence by the Commission and the ECB. I am confident that Bulgaria is on course to join the euro area in the near future once all convergence criteria have been met.

I want to reassure you that we are fully dedicated to achieving economic prosperity for our citizens by strengthening the Economic and Monetary Union and establishing the necessary conditions for sustainable long-term growth. I look forward to continuing to work closely with you in the months ahead as we seek to deliver on our shared work priorities.

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Annex

Statement of the Eurogroup in inclusive format on the future of Capital Markets Union

Open, well-functioning, and integrated European capital markets are crucial to promote the single market and to attract the necessary investments, and thereby to boost the EU's global competitiveness, innovation, sustainable growth, and job creation. It will provide better funding possibilities for growing companies, including small and medium-sized companies, and give EU citizens the opportunity to invest their savings more productively in Europe.

Deep and liquid capital markets that can allocate capital efficiently and allow for cross-border private risk-sharing constitute, together with a well-functioning Banking Union, a key element for the resilience of our economic and monetary union.

Today, Europe is at risk of falling further behind globally in terms of competitiveness, growth, and prosperity of its citizens. European capital markets need to be urgently developed into globally competitive markets. The EU needs a capital market that can channel domestic savings and foreign capital freely and effectively into innovative companies, allowing them to develop into engines of long-term growth and, ultimately, help the EU to become a global leader for innovation and new industries.

The robust and well-regulated banking sector of the European Union carries nowadays the bulk of the financing needs for businesses. Banks and insurance companies are the main distribution channel offering savings and investment possibilities for citizens. But to match the substantial financial needs of the future, market-based funding opportunities must urgently become more widely and readily available in Europe.

While we have made significant progress in recent years to improve the functioning of European capital markets through the Capital Markets Union action plans, they are far from reaching their full potential.

The lack of a deep and well-functioning market for risk capital in Europe – notably in the start-up and scale-up phase of companies, but also for those in more mature stages of development – continues to force many of the EU's most dynamic and innovative businesses to seek funding abroad. **Reducing fragmentation**, **regulatory burden, and high transaction costs can increase the EU's attractiveness as a financial hub.** Attracting and keeping businesses in the EU will improve its future economic growth potential and offer more profitable investment opportunities in the EU.

An open, liquid capital market which is well integrated into global markets is important to support the flow of private investment into innovation, including in the green and digital sectors. With the limited fiscal space and multiple spending priorities, funds to build up production capacity and boost innovation in Europe need to come primarily from the private sector.

Equally, well-functioning capital markets allow European citizens to benefit from more attractive investment opportunities that help boost their available income and complement their future pension income.

<u>Priority areas for action</u>

Preparing for the next European legislative term of 2024-2029, under the mandate of the EU Leaders, the Eurogroup in inclusive format has identified **three priority areas for action where measures are necessary to improve the functioning of European capital markets**:

- **A. Architecture:** develop a competitive, streamlined and smart regulatory system, allowing funds to be better channelled into innovative EU businesses, with greater liquidity, risk taking and risk sharing together with higher resilience and financial stability.
- **B. Business:** ensure better access to private funding for EU businesses to invest, innovate and grow in the EU.
- **C. Citizens:** create better opportunities for EU citizens to accumulate wealth and improve financial security, by increasing direct and indirect retail participation through access to profitable investment opportunities.

Measures

The Eurogroup in inclusive format considers the following **measures** in the three areas to be imperative and urgent **to be taken forward during the next European legislative term,** which should be considered in full respect of the European Commission's right of initiative and the role of the Union legislator. The Eurogroup in inclusive format intends to monitor and evaluate **progress achieved at national and EU-level**:

A. *Architecture*: Develop, within the EU, an agile capital markets framework that allows better cross-border diversification of risk by reducing barriers and developing a competitive, consistent, streamlined, and smart regulatory and supervisory system that works for businesses, investors, and savers, and ensures financial stability.

1. **Develop the EU securitisation market to allow for the efficient and transparent transfer of risks to parties best equipped to carry those risks.**
   We invite the European Commission to comprehensively assess all the supply and demand factors holding back the development of the securitisation market in the EU. This assessment should cover, inter alia, the adequacy of our toolbox, including the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements. The European Commission should consider coming forward with corresponding proposals, taking into account international standards.

2. **Further supervisory convergence of capital markets across the EU**.

   We invite the European Commission to assess ways to improve supervision in the EU through further developing the common rulebook as well as examining a broad range of options to enhance supervisory convergence through a more efficient and effective use of the existing powers of the European Supervisory Authorities and a possible targeted strengthening of their role and governance arrangements. The aim should be to strengthen financial integration, ensure financial stability, simplify processes and reduce compliance costs for supervised entities across the EU, thus delivering a more harmonised enforcement of rules, improving the access to and the attractiveness of EU capital markets and building trust in the single market for EU capital.

   We also invite the European Commission to explore ways to enhance the efficiency of supervisory data collection and storage in the EU, in order to facilitate supervision of market activities and to reduce IT and compliance costs for financial companies and supervisory authorities.

   Any possible follow-up initiatives should be based on a thorough impact assessment including a cost-benefit analysis and a consultation with relevant stakeholders, including Member States, national supervisors and the industry concerned.

3. **Reassess the regulatory framework to reduce regulatory burden and transaction costs for market participants.**

   We invite the Commission, following a thorough assessment, to consider bringing forward additional measures to reduce regulatory burden in the EU's financial market framework, in particular for smaller market participants, to improve the EU's competitiveness as a financial hub, while maintaining the related policy objectives.
   Any new legislative initiatives, in the three areas to foster the Capital Markets Union and in financial services in general, should also always be based on thorough impact assessments in line with agreed principles for better regulation to support informed decisions. These impact assessments should be based on aggregate effects and cost estimates at EU level and, subject to data being made available, at national level.

We also invite the European Supervisory Authorities to aim at reducing, to the fullest extent possible and based on cost-benefit analysis, compliance costs and regulatory burden for financial companies when carrying out their tasks and exercising their powers.

4. **Targeted convergence of national corporate insolvency frameworks.**
We invite the European Commission to assess the need for additional measures to facilitate further convergence in specific features of insolvency frameworks that could deter cross-border capital markets/investments, notably the ranking of claims and insolvency triggers or the rules for financial collateral and settlement.

5. **Further harmonise accounting frameworks in a targeted manner** to enhance cross-border comparability of available information on companies, without increasing administrative burden, to allow in particular small and medium sized businesses (SMEs) and other non-listed firms to better benefit from the new European Single Access Point (ESAP) and thus facilitate investment in those companies.
We invite the European Commission to consider making appropriate proposals to that end, including with regard to the development of a voluntary IFRS-light regime for SMEs. We encourage the industry to make use of the ESAP and invite the European Commission to report on its progress regularly.

6. **Increase the attractiveness of capital market funding for companies through better integrated market infrastructure in the EU and through further convergence and harmonisation of listing requirements across European exchanges** to ensure lower costs and easy access to make equity and bond financing in the EU more attractive, including for SMEs.
We invite the European Commission and Member States to assess and, if appropriate, address obstacles that could hinder mergers and acquisitions or other forms of integration of market infrastructure, including stock exchanges, with the view to strengthening European centres of expertise.

   We also invite the European Commission to monitor any outstanding issues following the adoption and implementation of the Listing Act and of the consolidated tape, including the identification of areas where further developing the consolidated tape could be beneficial to market integration.

7. **Foster equity financing through well-designed national corporate tax systems to ensure EU companies have access to diversified sources of funding.**

   Member States are invited to investigate ways to reduce the debt equity bias (for example through their national tax systems) and share best practices and plans to address this bias. We invite the European Commission to support this initiative by providing analysis and advice.

B. *Business*: Increase investments in the EU, especially in the sustainable and digital sectors, and ensure that businesses, especially SMEs, have access to the appropriate funding to grow within the EU, can be competitive and are not hindered by excessive administrative burden.

8. **Improve conditions for institutional, retail, and cross-border investment in equity, in particular in growth/scale up venture capital** through regulatory means, targeted tax incentives by Member States or other measures at EU and national level.
We invite the European Commission to consider coming forward with proposals to improve the financing conditions for EU businesses throughout their lifecycle, providing the ecosystem necessary for EU businesses to grow and prosper with investment from private investors.

   We invite the European Commission, in cooperation with Member States, to assess the impediments, including of a regulatory nature, to cross-border investment, especially in the EU equity market, by institutional investors, including pension funds and, based on this assessment, consider ways to tackle the impediments.

   Member States and EU institutions are invited to consider setting up a European initiative based on joint public-private investment structures facilitated by the EIF aimed at improving exit routes from the venture capital stage, following up on the European Tech Champion Initiative (ETCI), to help EU businesses grow into successful global players. We invite the EIB group to consider setting up similar initiatives as ETCI to facilitate access for mid-sized companies in all participating Member States.

We invite the European Commission to explore ways to support Member States in their efforts to facilitate the path for companies of all sizes to raise capital through public listings.

9. **Bolster the EU's edge in sustainable finance by scaling up the impact of the EU framework** in place and fostering the use of the provided finance toolkit by market participants to support their transition efforts.
We invite the European Commission to continue its efforts to enhance the usability of the EU sustainable finance framework and to support stakeholders with its implementation and, where appropriate, to take steps to reduce administrative burden through enhancing clarity, consistency and ease of use based on an appropriate impact assessment.

We also invite Member States to step up their efforts in supporting market participants in the uptake of sustainable finance tools and to address national barriers which slow down the use of the common EU framework.

C. ***Citizens*: Facilitate citizens' access to capital markets by creating easier access routes to a larger choice of investment possibilities for their savings and pensions, by providing tools for citizens to improve their financial literacy, and by creating attractive, consumer-centric, investment products, underpinned by a robust retail investor protection framework that bolsters trust in capital markets**.

10. **Create an attractive, easy-to-use and consumer-centric investment environment,** including easy-to-use and secure digital interfaces developed by the industry, **and provide incentives to citizens to encourage them to make better use of the opportunities of capital markets**.
Member States are invited to assess ways to make their respective personal income tax systems more supportive of investments in capital markets. Notably, Member States should review the tax treatment of long-term retail investment products and of capital gains and losses.

We invite the European Commission to identify and propose best practices and monitor and assess the impact in terms of possible market fragmentation.

We invite the European Commission to look further into any outstanding EU legislative changes to facilitate retail investments building on the retail investment strategy. Easy access to simple, transparent and low-cost retail investment products, with appropriate risk-return profiles for all EU citizens, should be facilitated.

In this context, we call for a speedy implementation of the European framework for digital identity. We invite the European Commission to monitor and assess the uptake of the framework by the financial industry, especially the banking sector, to offer easy-to-use and secure digital interfaces for all retail clients to facilitate flexible access to financial services across the EU.

We invite the European Commission, if necessary, to consider coming forward with legislative proposals to facilitate retail access to an easy-to use digital investment environment.

11. **Support sufficient complementary income streams for an ageing population through wider use of longer-term savings and investment products, including through occupational and personal pension schemes.**
We invite the European Commission to review and consider whether to further develop and improve the pan-European pension product (PEPP) to offer all citizens attractive options for their pension income and to make sure that pension savings are invested productively.

Member States are invited to assess the availability of products for their citizens on the occupational pensions market and share best practices, including on how to better enrol citizens in occupational pensions. We invite the European Commission to inform Member States' efforts by identifying and proposing best practices.

Member States are also invited to develop pension tracking systems to provide citizens with an overview of their future retirement income, where needed, based on input from the European Commission. The European Commission is invited to develop a pension dashboard, in collaboration with the European Insurance and Occupational Pensions Authority and Member States, to follow the evolution of pension coverage across Member States and to report back to Member States on developments.

12. **Facilitate the strengthening of an investor/shareholder culture among EU citizens to increase retail participation.**
    Member States are invited to create initiatives to improve financial literacy among citizens as well as SMEs, combined with targeted initiatives to create more interest in long-term wealth-creation through investing. The European Commission should promote a regular exchange of best practices among Member States integrating the joint EU/OECD financial competence frameworks in specific financial education measures aimed at building a better understanding of market-based investment opportunities.

    We also invite the European Commission to review the EU Shareholder Rights Directive, notably with the aim to better harmonize shareholder rights in the EU, including the definition of shareholders and to ensure that cross-border shareholders do not face undue obstacles when exercising their ownership rights.

13. **Develop attractive cost-effective and simple cross-border investment/savings products for retail investors.**
    We invite interested Member States and the European Commission to examine the potential of developing a framework for a common cross-border market-based investment/savings product for citizens and assess its impact. Such product could also be aimed at young citizens, offering them an early hands-on capital market experience through mechanisms such as a programmed monthly contribution and a diversified allocation by default.

<u>Process and Follow-Up</u>

The Eurogroup in inclusive format calls on Member States to implement the outlined measures swiftly.

The Eurogroup in inclusive format invites the European Commission to consider bringing forward the corresponding initiatives, as early as possible during the new legislative term and looks forward to completion of relevant legislative work by 2029.

The Eurogroup in inclusive format, in full respect of the competences of the European Commission and the co-legislators, will continue to play an active role in discussing the key political issues to further development of the Capital Markets Union. In this regard, the Eurogroup in inclusive format commits to **taking stock regularly of the performance of European capital markets** and to monitoring progress on the above-listed measures at national and EU-level regularly, on the basis of input from the European Commission and starting from 2025.

For these regular performance reviews, the Eurogroup in inclusive format invites Member States to report on their **national initiatives to deepen capital markets,** including any impact assessment, to Member States. We also invite the European Commission to report on progress on EU level initiatives and on capital market developments, based on **quantitative key performance indicators and qualitative information** providing a clear picture, at ministerial level, of the progress made.

The Eurogroup in inclusive format will also regularly coordinate the exchange of best practices among Member States, with input from the European Commission.

Complementary work streams

We call on Member States to **swiftly implement the already adopted European legislative measures** aimed at developing our Capital Markets Union.

The Eurogroup in inclusive format looks forward to a **rapid completion of the outstanding legislative work** following the 2020 Capital Markets Union action plan.

While EU institutions and Member States have a major responsibility in developing the enabling conditions and removing the barriers for a deep and robust Capital Markets Union, the EU-based industry has a central role to play in making full use of these opportunities. Therefore, we invite the **industry** to make active use of created opportunities and to anticipate these regulatory changes to ensure a smooth implementation of the measures aimed at building a genuine single market for capital.

The Eurogroup in inclusive format remains committed to strengthening and completing the **Banking Union in a holistic manner**. The Capital Markets Union, together with the Banking Union, is critical to improving the investment opportunities for investors, businesses, and citizens, and promote sustainable growth and financial stability in the EU.

Eurogroup statement on the fiscal policy orientation for 2025

The Eurogroup welcomes the political agreement, which was reached in February 2024 on a comprehensive reform of the EU's economic governance framework and looks forward to its timely adoption by the co-legislators. Work is ongoing on preparing for the implementation of the revised framework, once in force.

While the economy entered 2024 on a weak footing, the conditions for an acceleration of economic activity in the euro area in 2025 appear to be in place based on the Commission winter forecast. The labour market remains strong. Inflation is on a declining path and is expected to be close to the ECB target in 2025, while the effects of tighter monetary policy work their way through the economy. Risks to the economic outlook are nevertheless tilted to the downside, as global uncertainty weighs on the economic outlook.

The euro area is facing multiple budgetary demands in parallel to the need to continue to rebuild fiscal buffers. The reformed framework is designed to strengthen debt sustainability and promote sustainable and inclusive growth through structural reforms and investments, while fostering national ownership and enhancing enforcement. We are committed to ensure its consistent and swift implementation over the course of this year. The draft budgetary plans and orientations on the fiscal stance remain important, as close coordination of Member States' fiscal policies significantly contributes to the strength and cohesion of the euro area.

Based on the latest available data, the requirements of the revised economic governance framework would translate into an overall slightly contractionary fiscal stance in the euro area in 2025. This would be appropriate in light of the current macroeconomic outlook, of the need to continue to enhance fiscal sustainability, and to support the ongoing disinflationary process, while policies should remain agile in view of the prevailing uncertainty.

We will continue to pursue ambitious structural reforms and preserve and where appropriate increase the level of investment, including in areas of common priority, such as the green and digital transitions, as well as defence capabilities, financed through national and EU sources, including the Recovery and Resilience Facility. We are committed to strengthening our efforts to improve the effectiveness, quality and composition of public spending. In line with our December statement, we will continue to phase-out the remaining energy support measures as soon as possible in 2024 and use the related savings to reduce government deficits.

We will take into account these considerations when preparing the medium-term fiscal-structural plans, including the reform and investment commitments of the recovery and resilience plans, and the budgets for next year, in line with the revised governance framework. In that context, we look forward to further Commission guidance and discussion with the Member States, in order to ensure effective preparation and predictable and transparent assessment of the medium-term fiscal-structural plans.

The Eurogroup will continue to closely monitor economic and fiscal developments regularly and reinforce its policy coordination.