



Brussels, 21.10.2015
COM(2015) 603 final

2015/0250 (NLE)

Proposal for a

COUNCIL DECISION

**laying down measures in view of progressively establishing unified representation of the
euro area in the International Monetary Fund**

EXPLANATORY MEMORANDUM

The euro area is a large open economy with international policy responsibilities. The economic and financial weight of the euro area, and the existence of a single monetary and exchange rate policy have made euro area policy decisions and economic developments increasingly relevant for the world economy.

The political relevance of the euro area has been greatly enhanced in recent years. The European Semester, along with adoption of the so-called six-pack and two-pack legislation¹ as well as the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union² have integrated, strengthened and broadened EU-level surveillance of Member State policies in essential areas of macroeconomic and budgetary relevance. The European Stability Mechanism was established as the permanent crisis resolution mechanism for the countries of the euro area. The Union has also put in place a Banking Union with centralized supervision and resolution for banks in the euro area and open to all other Member States.

At the same time, the external representation of the euro area has not kept up with those developments. The progress that has been achieved on further internal integration of the euro area needs to be projected externally, notably through progress towards united external representation in the International Monetary Fund (IMF). The EU (euro area) has exclusive competence or competence shared with its Members States in many areas covered by the Articles of Agreement of the IMF.

The IMF, through its lending instruments and surveillance, is an essential actor in global economic and financial governance. It has played a key role, together with the Commission and the European Central Bank (ECB), in shaping and implementing programmes aimed at rescuing Member States hit by the financial and sovereign debt crises. In addition, the strengthened governance framework for economic policy coordination and strong convergence of financial sector regulation and supervision in the context of the Banking Union mean that, in the future, the IMF will need to go beyond a purely national perspective in its assessment of supervision and crisis management in the euro area.

An effective euro area representation would allow delivering a single euro area message at the IMF on issues such as on programmes and reviews, economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability. A more coherent representation would also be to the benefit of third countries, in particular through a stronger and more consistent euro area contribution to global economic and financial stability.

In October 2014 the Commission announced in its 2015 work programme³ that it intends to address the external representation of the euro area in the framework of deepening the Economic and Monetary Union.

In line with the Five President's report of June 2015 on Completing Europe's Economic and Monetary Union⁴, a strengthened international voice is an integral part of the ongoing efforts to improve the economic governance of the euro area. The report particularly emphasizes shortcomings related to the euro area representation in the IMF where, despite important

¹ http://europa.eu/rapid/press-release_MEMO-13-318_nl.htm.

² Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union, 1 February 2012: <http://www.consilium.europa.eu/european-council/pdf/Treaty-on-Stability-Coordination-and-Governance-TSCG/>.

³ COM(2014) 910: Annex 1 to Commission Work Programme 2015, 16 December 2014, http://ec.europa.eu/atwork/pdf/cwp_2015_new_initiatives_en.pdf.

⁴ Five Presidents' Report "Completing Europe's Economic and Monetary Union", 22 June 2015, http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf.

progress made to further coordinate European positions, the euro area does not yet speak with one voice.

The Commission's Blueprint for a Deep and Genuine Economic and Monetary Union⁵ already set out a number of priority actions for strengthening and consolidating the external economic representation of the euro area. It suggested putting the focus on the IMF because of its key role in the framework of international economic governance. External representation was listed among the priority actions suggested for the short term. The European Parliament has also called for a unified external representation of the euro area⁶.

In 2006, the ECOFIN Council agreed that the move to a single euro area chair in the IMF would be a longer-term goal. In this context, Member States considered that several ways could be envisaged in order to move to a possible single euro area chair in the future, including an approach involving temporary steps.

Against this background, this proposal suggests moving to a unified representation for the euro area in the IMF with the President of the Eurogroup as the representative for the euro area. It proposes a gradual approach for achieving this goal involving intermediate transitional steps for representation in the International Monetary and Financial Committee (IMFC) and the IMF Executive Board. Such transitional steps would involve granting observer rights to the euro area represented by a representative of a euro area Member State already member of the Board, in association with the Commission and the European Central Bank (which has currently observership status in the IMF Executive Board). Furthermore, the coordination process for establishing common positions should be strengthened in order to have systematic common statements on all IMF policy, country and surveillance issues that are of relevance to the euro area.. Finally, these steps should also aim to strengthen cooperation of the euro area with non-euro area Member States regarding IMF issues. It should be noted that the external representation of the euro area will also depend on the future status of the euro area in the IMF that member countries of the IMF would be willing to grant.

- **Legal basis**

Article 138 (2) TFEU foresees the adoption of appropriate measures to ensure unified representation within international financial institutions and conferences. The objective underlying this provision was to achieve a stronger and unified representation of the euro area, given that the effectiveness of the current informal arrangements for representing the euro area was deemed insufficient. As a first step, this provision may be used for the representation of the euro area within the IMF only. Provisions allowing the euro area to better coordinate the establishment of its positions within the IMF should also be included in the proposal as they are necessary and ancillary to the objective of unified representation. Reference is also made to the first paragraph of Article 138 TFEU which enables the Council to establish common positions on matters of particular interests for economic and monetary union within international financial institutions and conferences.

Article 138(3) TFEU provides that, for the adoption of this proposal, only members of the Council representing euro area Member States take part in the vote. The Council acts after consulting the ECB.

⁵ A Blueprint for a deep and genuine Economic and Monetary Union - COM(2012) 777, 30.11.2012, http://ec.europa.eu/archives/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf.

⁶ European Parliament resolution of 25 October 2011 on Global Economic Governance (2011/2011(INI), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P7-TA-2011-0457+0+DOC+PDF+V0//EN>).

At the same time, the Commission decides to withdraw the Commission proposal for a Council decision on the Representation and Position Taking of the Community at International Level in the context of Economic and Monetary Union COM (1998) 637 final which was not adopted and became obsolete since the launch of the euro and the entry into force of the Lisbon Treaty.⁷

⁷ Proposal for a Council decision on the Representation and Position Taking of the Community at International Level in the context of Economic and Monetary Union – COM(1998) 637 final, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:51998PC0637&from=FR>.

Proposal for a

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 138 thereof,

Having regard to the proposal of the Commission⁸,

Having regard to the opinion of the European Central Bank⁹,

Whereas:

- (1) Appropriate measures may be adopted to ensure unified representation and common positions of the Union when exercising its competences specific to the euro area Member States (the "euro area") within the international financial institutions.
- (2) The euro area is a large open economy with international policy responsibilities.
- (3) The Union has exclusive competence as regards monetary policy for the euro area Member States. Moreover, strengthened Union coordination and surveillance mechanisms apply as regards economic, fiscal, and financial policies of euro area Member States.
- (4) As noted by the Report "Completing Europe's Economic and Monetary Union" published on 22 June 2015 ("Five Presidents' Report"), the large economic and financial size of the Union and the existence of a single monetary and exchange rate policy for most of its members, make the Union policy decisions and economic developments increasingly relevant for the world economy. The report also called for consolidation of the external representation of the euro area.
- (5) It is, therefore, imperative that the euro area plays its full role in international monetary, economic and financial policy cooperation, in particular within the International Monetary Fund (IMF), which is a core organisation in the international monetary and financial system.
- (6) However, IMF members are single countries. As a result, the euro area is not represented as a single member in the Fund and its organs. Currently, two of the euro area Member States can each appoint an Executive Director, while the other euro area Member States are spread over six multi-country constituencies. This hinders the euro area from expressing its position effectively and in a unified way within the IMF. It also undermines the effectiveness of the collaboration between the IMF and the euro area.

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- (7) The recently strengthened euro area framework for economic policy coordination and strong convergence of financial sector regulation and supervision in the context of the Banking Union mean that in the future the IMF will need to go beyond a national perspective in its assessment of supervision and crisis management in the euro area. An effective euro area representation will also allow delivering a single euro area message at the IMF on issues such as financial assistance programmes and reviews, economic and fiscal policy, macroeconomic surveillance, exchange rate policies, and financial stability policy.
- (8) Without prejudice to the possibility of full membership of the euro area, at a later stage, measures should be adopted in order to allow the euro area to speak with one voice within the IMF, taking into account the current IMF membership structure.
- (9) The objective to be pursued should be a unified representation with a single seat for the euro area within all organs of the IMF, while allowing euro area Member States to maintain their current shareholder status in the Fund. The Commission should undertake work to achieve this objective.
- (10) The deadline for attaining such a unified representation in the IMF should correspond to the timeline for the final stage of the process set out in the "Five Presidents' Report" for the completion of Economic and Monetary Union.
- (11) This unified representation should be accompanied by a stronger coordination of the positions to be taken within the IMF, while at the same time aiming for greater cooperation of the euro area with non-euro area Member States in the IMF.
- (12) As long as a unified representation of the euro area within all organs of the IMF is not fully attained, transitional arrangements should be made in order for the euro area to present a more coherent position within the IMF, in particular in the Executive Board of the IMF, and the International Monetary and Financial Committee (IMFC).
- (13) As regards the Executive Board, the current practice of having one of the current Executive Directors of the euro area Member States also representing the interests of the euro area should be formalized. Moreover, since the European Central Bank (ECB), in accordance with Decision No 12925-(03/1) of the IMF under Article X of its Articles of Agreement, already sends a representative as an observer to certain meetings of the Executive Board in view of its tasks in the European System of Central Banks (ESCB), this status of observer of the ECB should benefit the euro area as a whole. Such a single status of observer in the Executive Board for the euro area as a whole would allow covering the full range of euro area matters. This would also allow the euro area to better organize its representation as observer.
- (14) The President of the Eurogroup, the Commission and the ECB should negotiate this observer status of the euro area with the IMF.
- (15) The Commission and ECB are already observers in the IMFC. Current statements addressed to its Spring and Annual Meetings should be replaced by a statement from the President of the Eurogroup for the euro area.
- (16) All efforts should be made for a gradual rearrangement of the euro area Member States in the IMF in order to achieve greater consistency. The Council should agree on principles for a path for the regrouping of the euro area Member States in the IMF.
- (17) At the moment, the coordination of the position of the Member States in view of IMF meetings takes place both in the Economic and Financial Committee (EFC) and its sub-committee on IMF related issues (SCIMF), in Brussels, and in informal meetings

between Member State representatives at the IMF in Washington (EURIMF). Dedicated euro area sub-committees in the EFC should be set up in order to better coordinate the position of the euro area as regards IMF issues.

- (18) Euro area Member States agreed in 2007 to prepare common euro area statements on issues directly and exclusively related to euro area common policy. This agreement should be strengthened and extended in order to set out the requirement for common statements on all IMF policy, country and surveillance issues of relevance to the euro area.
- (19) When a Member State adopts the euro, all efforts should be pursued in order to achieve the necessary adaptations within the IMF.
- (20) All issues that do not have particular relevance to the euro area but to the Union as a whole should be closely coordinated with non-euro area Member States within the EFC or the Council.
- (21) In order to increase transparency and accountability to the European Parliament and the Council, the Commission, in consultation with the Eurogroup and the European Central Bank, should prepare regular reports on coordination on euro area matters in the IMF and other international financial institutions to the European Parliament and the Council,

HAS ADOPTED THIS DECISION:

SECTION 1 DEFINITIONS AND PURPOSE

Article 1 **Definitions**

For the purposes of this Decision, the following definitions apply:

- (1) 'euro area Member States' means the Member States whose currency is the euro;
- (2) 'euro area' means the Union when exercising its competences specific to the euro area Member States.

Article 2 **Purpose**

This Decision lays down provisions for the progressive establishment of a unified representation as well as common positions of the euro area within the International Monetary Fund (IMF) until the euro area will have obtained full membership of the IMF.

SECTION 2 UNIFIED REPRESENTATION OF THE EURO AREA IN THE IMF AND COORDINATED ESTABLISHMENT OF ITS POSITIONS

Article 3 **Unified representation of the euro area in the IMF**

Euro area Member States, supported by the Commission and the European Central Bank (ECB), shall take all necessary actions for the establishment, by 2025 at the latest, of a unified

representation of the euro area within the IMF, which shall be based on the following principles:

- in the Board of Governors, presentation of the views of the euro area by the President of the Eurogroup;
- in the International Monetary and Financial Committee (IMFC), representation of the euro area by the President of the Eurogroup;
- in the IMF Executive Board, direct representation of the euro area by the Executive Director of a euro area constituency, following the establishment of one or several constituencies composed only of euro area Member States;
- election of the Executive Director, as referred to above, upon proposal of the President of the Eurogroup and in accordance with the procedure provided for in Article 2 of Protocol No 14 on the Eurogroup, annexed to the Treaties;

Article 4

Coordinated establishment of the positions to be taken by the euro area

When the unified representation envisaged at Article 3 is attained, the following provisions shall apply:

- (a) Without prejudice to any common position adopted by the Council pursuant to Article 138(1) TFEU, all positions to be taken, orally or through written statements, within IMF organs shall be fully coordinated in advance within the Council, the Eurogroup, the EFC and/or the Euro Working Group (EWG), as appropriate.
- (b) A dedicated support structure shall be established within the IMF in order to support all actors engaged in the unified representation of the euro area in accordance with Article 3

SECTION 3 TRANSITIONAL ARRANGEMENTS

Article 5

Transitional arrangements

Until unified representation based on the principles listed under Article 3 is fully attained, Articles 6 to 9 shall apply.

Article 6

Representation of the euro area in the IMF Executive Board

1. The euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure with the IMF the status of observer for the euro area within the IMF Executive Board according to the modalities as set out in paragraph 2.
2. The euro area shall be represented in the Executive Board by the representative of a euro area Member State already member of the Board. He/She shall be designated for two and a half years in accordance with the procedure provided for in Article 2 of Protocol No 14 on the Eurogroup annexed to the Treaties. The Commission and the ECB shall also be able to attend meetings and intervene, as appropriate.

3. An observer office shall be established within the IMF in order to support the exercise of the euro area's observer rights.

Article 7

Representation of the euro area in the IMFC

1. The euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure with the IMF a right for the euro area to address the IMFC. This right shall be without prejudice to the arrangements which the Union as a whole enjoys in the IMF at the moment.
2. In the IMFC, the euro area shall be represented by the President of the Eurogroup, the Commission and the ECB, which shall be able to intervene in IMFC meetings, as appropriate.

Article 8

Euro Area internal coordination as regards constituency arrangements of the IMF

1. All questions related to constituency arrangements of the IMF involving euro area Member States shall be fully coordinated and agreed in advance within the Council, the Eurogroup, the EFC and/or the EWG, as appropriate.
2. The positions taken in relation to constituency arrangements, as referred to in paragraph 1, or changes thereto, shall be consistent with the objectives of increasing coherence of the representation of the euro area and achieving its unified representation within the IMF.
3. In the transitional phase, euro area Member States shall regroup to establish one or several constituencies composed of only euro area Member States.

Article 9

Euro area internal coordination as regards matters of euro area relevance

Without prejudice to any common position adopted by the Council pursuant to Article 138(1) TFEU, euro area Member States shall, within the Council, the Eurogroup, the EFC and/or the EWG, as appropriate, closely coordinate and agree on common positions on all matters of euro area relevance for the IMF Executive Board and Board of Governors meetings and shall use common statements on those issues.

SECTION 4 COMMON PROVISIONS

Article 10

Euro area Enlargement

When the Council decides that a Member State fulfils the necessary conditions for the adoption of the euro, the euro area Member States and the Eurogroup, the Commission, and the ECB shall jointly seek to secure the necessary changes within the IMF.

Article 11

Coordination with non-euro area Member States

Close cooperation with non-euro area Member States shall be organised within the Council and the EFC, on matters related to the IMF. Common positions shall be coordinated on matters relevant for the European Union as a whole.

Article 12

Reporting

The Commission shall, in consultation with the Eurogroup and the ECB, regularly report on coordination on euro area matters in the IMF and other international financial institutions to the European Parliament and the Council.

Article 13

Addressees

This Decision is addressed to the euro area Member States.

Article 14

Entry into force

This Decision shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the Council
The President