[Daily News 01 / 09 / 2017]

EU-Ukraine Association Agreement fully enters into force

Today, the Association Agreement between the European Union and Ukraine enters fully into force. President of the European Commission, Jean-Claude **Juncker**, said: *"Determination is a virtue. Today, in spite of all the challenges, we have made it. With the entry into force of the Association Agreement with Ukraine, the European Union is delivering on its promise to our Ukrainian friends. I thank all those who made it possible: those who stood on Maidan and those who are working hard to reform the country for the better. This is a day of celebration for our European continent."*Federica **Mogherini**, High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the Commission, said: *"Today marks the start of new chapter in our relationship. A closer association between the European Union and Ukraine means closer ties between our citizens, bigger markets and more opportunities for businesses and entrepreneurs, increased sharing of experience, information and expertise. It shows that we share the same values, that we have the same objectives, and that the Ukrainian people can count on the European Union's support for the years to come."* European Commissioner for European Neighbourhood Policy and Enlargement Negotiations Johannes **Hahn** said: *"Generations of Ukrainian citizens to come will reap the benefits of closer association with the EU. The first concrete results of implementation of the Agreement can already be seen: Ukraine's exports to the EU have increased and the EU has confirmed its position as Ukraine's first trading partner. Ukraine's recent reform efforts have been unprecedented, while much work remains such as in the fight against corruption, which must be pursued. The European Union will continue its support for Ukraine's reform efforts, with both expertise and financial support."*The Association Agreement, including its Deep and Comprehensive Free Trade Area (DCFTA), is the main tool for bringing Ukraine and the EU closer together: it promotes deeper political ties and stronger economic links, as well as respect for common European values. The DCFTA provides a framework for modernising Ukraine's trade relations and economic development by opening up markets and harmonising laws, standards and regulations with EU and international norms. A full press release is available online and more information on EU-Ukraine relations can be found in the factsheetor on the websiteof the EU Delegation to Ukraine. *(For more information: Maja Kocijancic – Tel.: +32 229 86570; Adam Kaznowski – Tel: +32 229 89359; Alceo Smerilli – Tel.: + 32 229 64887)*

EU supporting countries affected by deadly floods and storms in Asia

Thousands of people have been killed and displaced by floods and extreme weather in Asia over recent weeks. The European Union has been in close contact with humanitarian organisations working in the region to channel emergency funding to help those most in need. *"The EU is providing initial emergency funding of around €2 million for the most vulnerable people affected in India, Bangladesh, Myanmar and Nepal. This will help deliver* *food, safe drinking water, sanitation items, tents and other emergency essentials,"* said Commissioner for Humanitarian Aid and Crisis Management Christos **Stylianides**. EU humanitarian aid has been provided for emergency relief assistance to populations affected in Bangladesh and Myanmar by tropical storms. For the recent floods in India the EU is assisting the most vulnerable communities and our support will directly benefit 25,000 people in flood-stricken areas. For flooding in Nepal, EU assistance is helping the most affected families in various districts across the country and 35,000 people will directly benefit from the aid. This emergency aid comes on top of the €53 million in EU funding for disaster risk reduction in these four countries and long term EU assistance to the region. *(For more information: Maja Kocijancic – Tel.: +32 229 86570; Daniel Puglisi – Tel.: +32 229 69140)*

Film Night: Exploring the link between VAT and the financing of terrorism on 5 September

Next week, the Commission will host a unique event to screen two fascinating films that explore how criminals are using VAT fraud to finance terrorism. The film night will be introduced by Commissioner Pierre **Moscovici**. Two leading independent filmmakers, Bø Elkjaer from Denmark and Sander Rietveld from the Netherlands, will discuss how years of reporting led them to uncover a vast, shadowy web of crime and fraud spanning the EU and stretching across the globe. Their films explore the link between the industrial scale VAT fraud that costs Member States €50 billion a year and organised crime, including terrorism. A Q&A session with the reporters will follow the screenings and refreshments will be served. The event will take place at Bouche à Oreille, 1040 Brussels at 18h30 on 5 September. Members of the press and civil society representatives are welcome to attend and can register by emailing patrick.mccullough@ec.europa.eu. *(For more information: Vanessa Mock – Tel.: +32 229 56194; Patrick McCullough – Tel.: +32 229 87183)*

La Commissaire Gabriel se rend à la Biennale de Venise où cinq films soutenus par MEDIA sont en compétition

La Commissaire chargée de l'économie et de la société numériques Mariya **Gabriel** se rendra, du 3 au 4 septembre, à la 74e édition du festival international du film de Venise. Au total11 filmscofinancés par le programme Europe Créative MEDIAd'aide au développement, à la promotion et à la distribution du cinéma européen, seront diffusés à la Biennale, dont cinq sont en compétition pour le prestigieux Lion d'or: "*Custody*" de Xavier Legrand, "*Hannah*" de Andrea Pallaoro, "*The House by the Sea*" de Robert Guédiguian, "*Lean On Pete*" d'Andrew Haigh et "*The Leisure Seeker*" de Paolo Virzì. La Commissaire **Gabriel** rencontrera des responsables du secteur audiovisuel afin de discuter des actions de l'UE venant en soutien au cinéma européen, notamment l'avenir du programme MEDIA, la révision de la directive sur les services de médias audiovisuels et la modernisation des règles de l'UE encadrant le droit d'auteur. A l'occasion de cette visite, la Commissaire a déclaré : "*Le programme MEDIA joue un rôle essentiel dans le* *partage de notre identité commune d'Européens et dans le soutien à la diversité culturelle, qui en est le corollaire. La créativité artistique et culturelle est un élément fondamental d'une démocratie vivante et ouverte. C'est pourquoi, plus que jamais, nous voulons soutenir la création, la production et la distribution des contenus, pour qu'ils touchent les citoyens, à l'heure où la démocratie et les valeurs européennes sont confrontées à des attaques en Europe et à l'extérieur".* Lundi 4 septembre, la Commissaire **Gabriel** donnera un discours sur l'avenir du programme MEDIA au-delà de la période budgétaire 2014-2020 au Festival européen du film. Elle participera également à une conférence de presse avec le ministre italien de la culture Dario Franceschini, le secrétaire d'Etat aux affaires européennes Sandro Gozi et le directeur général en charge du numérique à la Commission européenne, Roberto Viola. Plus d'informations sont disponibles ici, et une fiche sur le programme MEDIA ici. (*Pour plus d'informations: Nathalie Vandystadt – Tel.: +32 229 67083; Inga Höglund – Tel.: +32 229 50698; Julia Bräuer – Tel.: +32 229 80707)*

Concentrations: la Commission autorise l'acquisition d'Omira par Lactalis

La Commission européenne a approuvé, en vertu du règlement européen sur les concentrations, l'acquisition indirecte de la société laitière Omira, basée en Allemagne, par le groupe laitier Lactalis, basé en France. Les activités des entreprises se chevauchent sur le marché de l'approvisionnement en lait cru en France et sur le marché des produits laitiers de longue conservation en Italie et Slovénie. Toutefois, la Commission a conclu que la concentration envisagée ne soulèverait pas de problème de concurrence compte tenu de la faible augmentation de la part de marché qui résulterait de la concentration et de la présence de nombreux concurrents crédibles et bien établis. L'opération a été examinée dans le cadre de la procédure normale du contrôle des concentrations. De plus amples informations sont disponibles sur le site internet concurrence de la Commission, dans le registre public des affaires sous le numéro d'affaire M.8549. *(Pour plus d'informations: Ricardo Cardoso – Tel.: +32 229 80100; Maria Sarantopoulou – Tel.: +32 229 13740)*

ANNOUNCEMENTS

Commissioner Navracsics on visit to Norcia, Italy

On Monday and Tuesday, 4 and 5 September, Commissioner for Education, Culture, Youth and Sport, Tibor **Navracsics,** will be in Italy to visit the region surrounding Norcia which was struck by several severe earthquakes between August 2016 and January 2017. While visiting the sites affected, the Commissioner, together with the President of the European Parliament, Antonio Tajani, will meet European Solidarity Corps volunteers helping restore cultural heritage sites and social services in the region. The projects, which will bring 230 European Solidarity Corps volunteersto the region until 2020, are part of the wider EU support to Italy. This includes notably the proposal to allocate to Italy €1.2 billion from theEU Solidarity Fund, the highest amount ever mobilised under this fund. On Monday 4 September at 18:00, Commissioner **Navracsics** will hold a Citizens' Dialogue together with President Tajani (live streaming available here). Introduced by the Mayor of Norcia, Nicola Alemanno, the Dialogue will focus on EU post-earthquake reconstruction aid, the future of the European Union, the European Solidarity Corps and other EU initiatives for young people, as well as the upcoming European Year of Cultural Heritage in 2018. On Tuesday at 14:30, Commissioner **Navracsics** will hold a Facebook Live chat together with two volunteers from the European Solidarity Corps. There will be two press conferences, one on Monday evening (extracts available here) and one on Tuesday (extracts available here). *(For more information: Johannes Bahrke – Tel.: +32 229 58615; Sara Soumillion – Tel.: + 32 229 67094*)

Commissioners attend the annual Ambrosetti Forum this weekend

Several members of the College will be in Cernobbio, Italy, this weekend to participate in the European House Ambrosetti Forum, an annual event which focuses on current issues of major impact for the world economy and society. On Saturday morning, First Vice-President Frans **Timmermans** will deliver the keynote speech at the opening of the Forum, on 'The Agenda to Change Europe' and will participate in the subsequent panel debate on 'The Europe We Want'. During the event, Commissioners Günther H. **Oettinger,** Pierre **Moscovici** andMargrethe **Vestager** will all take part in high-level roundtables and panel discussions. More information, the full agenda and the list of participants are available here. *(For more information: Vanessa Mock – Tel.: +32 229 56194; Tim McPhie – Tel.: +32 229 58602)*

Commissioner Jourová on visit to Tallinn

On Monday 4, Commissioner for Justice, Consumers and Gender, Věra **Jourová** will visit Tallinn. She will deliver a keynote speech at the Company Law and Corporate Governance Conference. She will present the aim of the upcoming company law package, which the Commission propse in the coming months. She will then meet Mr Urmas Reinsalu, Minister of Justice, to discuss the ongoing justice files under the Estonian presidency, such as the digital contracts proposal, the European Public Prosecutor's Office and the first review of the Privacy Shield. (*For more informations: Nathalie Vandystadt – Tel.: +32 229 67083; Mélanie Voin – Tel.: +32 229 58659)*

Boosting cross border cooperation: Commissioner Creţu visits Ostbelgien

On Monday Commissioner for Regional Policy Corina **Creţu** will visit Eupen, the capital of the German-speaking community of Belgium (Ostbelgien). Alongside Minister-President Olivier Paasch and MEP Pascal Arimont the Commissioner will visit projects funded under Cohesion Policy interregional ("Interreg") programmes. *"Ostbelgien, a Belgian region at the crossroads between the Netherlands and Germany, has decades-long experience of interregional cooperation with the support of Interreg funding programmes,"* said Commissioner **Creţu** ahead of her visit, *"as such, it is a great laboratory to test new ideas to overcome remaining cross border obstacles. On the basis of good practices gathered in border regions like Ostbelgien, we will launch a new initiative to boost cross border cooperation at the end of September."* More information on EU funds in Belgium can be found on the Cohesion Open Data Platform. *(For more information: Johannes Bahrke – Tel.: +32 229 58615;*

Sophie Dupin de Saint-Cyr – Tel.: +32 229 56169)

[Calendar](#)

The Commissioners’ Weekly Activities

[Upcoming events](#) of the European Commission (ex-Top News)

[Vítor Constâncio: Growth, adjustment and resilience in the euro area](#)

Remarks by Vítor Constâncio, Vice-President of the ECB, at the Forum Villa d’Este, Cernobbio, 1 September 2017

In my remarks today, I will reflect on the outlook for growth in the euro area taking distance from monetary policy considerations at the present time by focusing on recent economic developments and their structural component. I will then elaborate on opportunities and risks posed by broad structural developments across euro area countries.

In my intervention today, I want to convey five main messages:

First, the ongoing cyclical recovery in the euro area is now broader and more consolidated.

Second, this notwithstanding, the strong worldwide reflationary phase that seemed likely at the beginning of the year has not materialised. Therefore, the tasks of normalising inflation and unemployment to acceptable levels continue to be difficult.

Third, the euro area peripheral countries have completed a notable adjustment phase. Consequently, the monetary union is now more resilient to shocks as a result of a reduction in imbalances and stronger synchronisation of the economic cycle across countries. The euro area is thus better prepared to resist financial market shocks.

Fourth, in this context, a correction in the worldwide risk premia, particularly in the bond market seems now more absorbable. Financial conditions may nevertheless deteriorate suddenly, due to developments in the US or emerging economies’ or to geo-political risks that can trigger spikes in a situation of prolonged low volatility.

Fifth, resuming real economic convergence among member countries is vital for the euro area. This is the next fundamental challenge and it will require more structural and institutional reforms both at national and European levels.

A broader and more consolidated recovery

The euro area has now been expanding for 17 consecutive quarters while business confidence is at a decade high. Equally important, practically all countries are now taking part in the recovery and more people in the euro area are employed today than before the crisis. These developments would not have materialised without the ECB’s expansionary monetary policy after the second recession in 2012-2013.

While we can be increasingly confident about the sustainability of the recovery, we have to recognise that it has taken much longer for the euro area than for other advanced economies, to emerge from the financial crisis which started in 2008.

The depth and length of the euro area crisis unveiled inter alia the incompleteness of the euro area’s institutional design. However, on the positive side, it has also encouraged the euro area to equip itself with new instruments to tackle these weaknesses.

Indeed, significant reforms have been adopted since 2010 to increase the resilience of the euro area. At the European level, the revamp of the Stability and Growth Pact and the creation of the European Stability Mechanism (ESM) strengthened the fiscal framework and the crisis management capacity with a permanent funding instrument. Moreover, the decision to establish the Banking Union in 2012 has put in place the basis for a supranational supervision and crisis management. Also at country level, steps were taken to correct macroeconomic imbalances, including through the implementation of structural reforms.

These measures have put the euro area on a more resilient and safer footing and we have started to see the pay-off: countries with previously large current account deficits now record surpluses, competitiveness has improved and the impact of reforms on growth starts to be visible in some countries. At the same time, these positive developments should not lead to complacency as crucial challenges remain in an environment of low trend growth and still high debt levels in a number of euro area countries. To address these challenges we need to continue to make progress at national and European levels. At the national level, the reform momentum needs to be maintained while at the European level, further steps need to be taken to complete the institutional architecture.

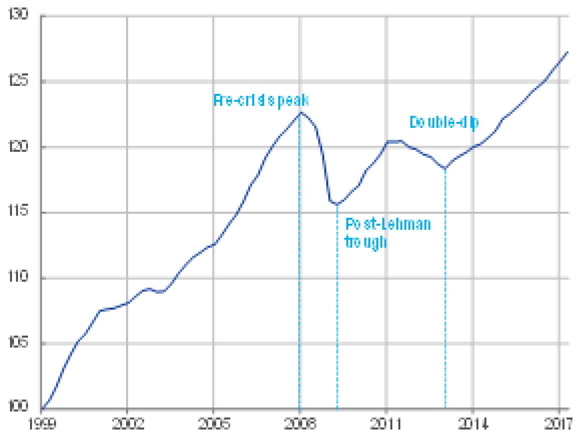
Let me start by reviewing a few facts on the euro area recovery and on the adjustment process during the past years.

The euro area has been on a recovery path during the past four years (see slide 1, chart on the left) with the recovery gaining momentum as of late. The euro area has finally reached a GDP level above the 2007 level, recovering the output lost over the period 2008-2013. On the other hand, stronger growth was coupled with increased convergence of growth rates in the euro area, as shown by the development of the cross-country standard deviation of annual real GDP growth over time (see slide 1, chart on the right).

The recovery of economic activity in the euro area

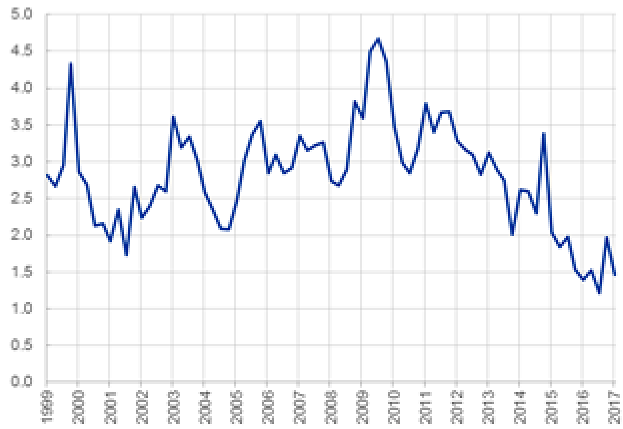
Euro area real GDP

(1999Q1 = 100)



Decreasing dispersion of real GDP growth across euro area countries

(percentage)



Slide 1

Over recent quarters, the economic recovery has also become more broad-based across euro area countries and the different sectors of the economy. All euro area countries are currently recording positive real GDP growth in annual terms, for the first time since 2007 (see slide 2, chart on the left). At the same time, growth rates have become less dispersed across countries compared to the past, which also suggests increased business cycle synchronisation within the euro area.

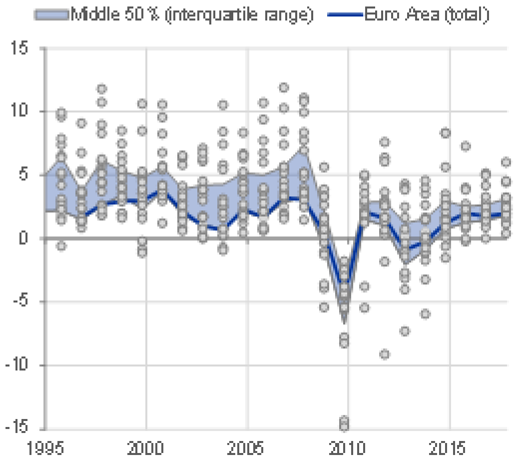
The recovery is also broadening across sectors. The share of sectors with positive growth has returned to its pre-crisis levels (see slide 2, chart on the right). At the same time, the dispersion of growth rates across sectors is the lowest since the inception of the euro.

Taken together, the broadening of the recovery across countries and sectors suggests that it has not only gained momentum but, importantly, the recovery has gained robustness.

Broad based recovery

Real GDP growth in euro area countries

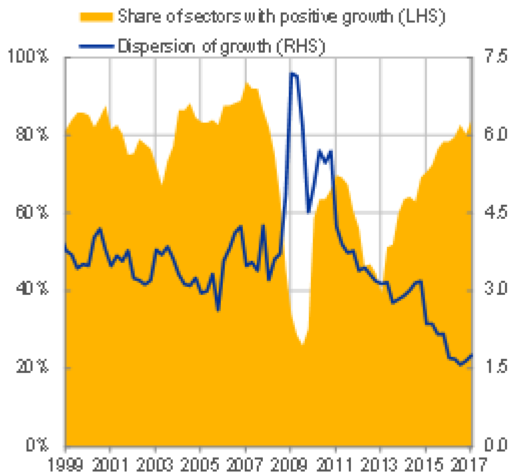
(annual growth rates)



Sources: Eurostat, The Conference Board and ECB staff calculations.
Note: For any given year, the shaded area contains the middle 50% of the growth rates ("interquartile range"). Each dot represents a country-year observation. Ireland's growth rate of 26% in 2015 is included in the calculations, but not shown in the chart for the sake of readability. The observation for 2017 is based on the four quarters up to 2017Q1.

Dispersion of growth across sectors

(annual growth rates)

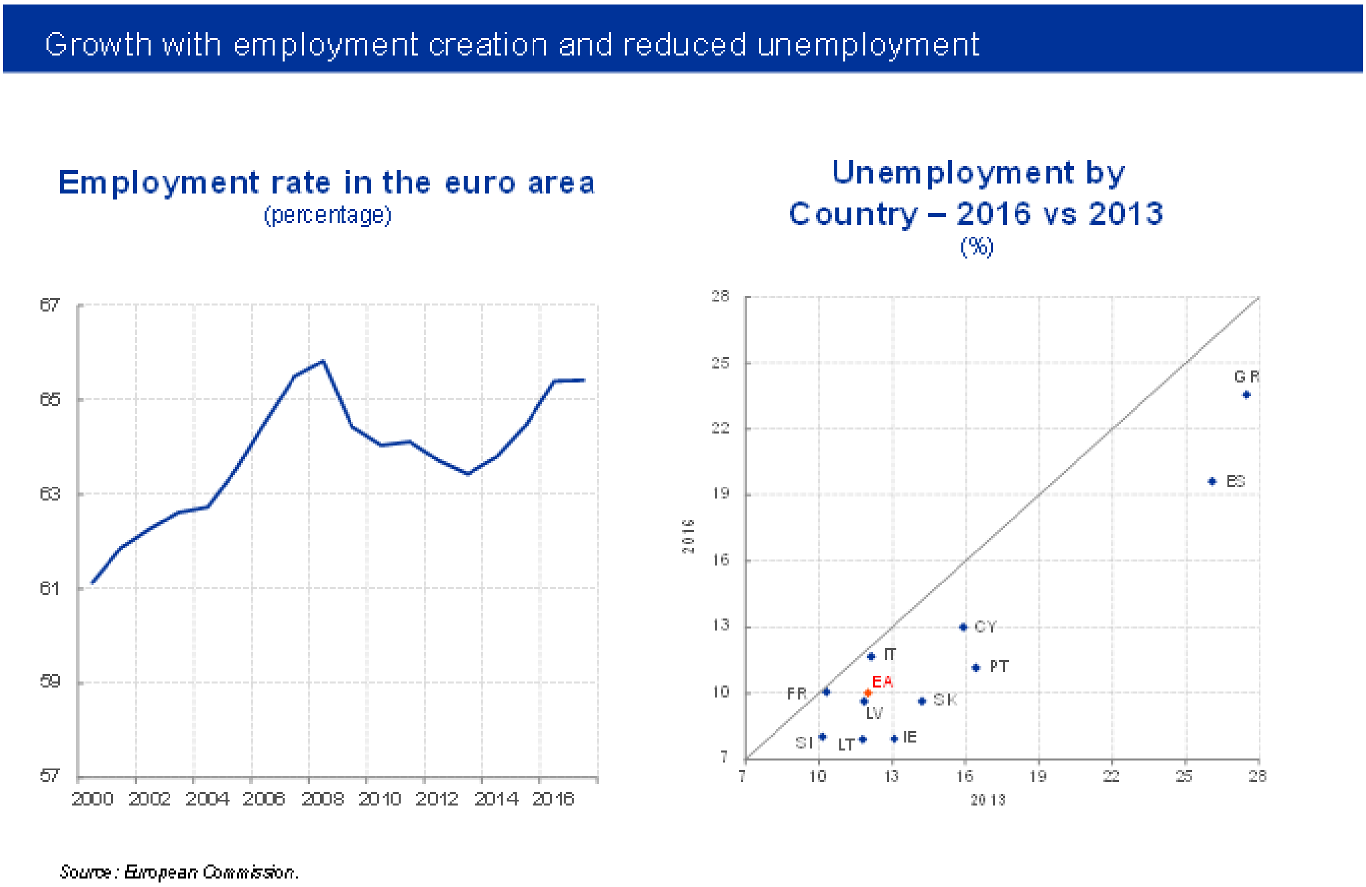


Sources: Eurostat and ECB staff calculations.
Notes: The share of sectors with positive growth is constructed as the percentage of the 102 country-sector pairs that reported positive year-on-year growth in value added. The dispersion of growth is measured as the weighted standard deviation of year-on-year growth in value added in the same 102 country-sector pairs. The latest observation is for 2016Q4.

Slide 2

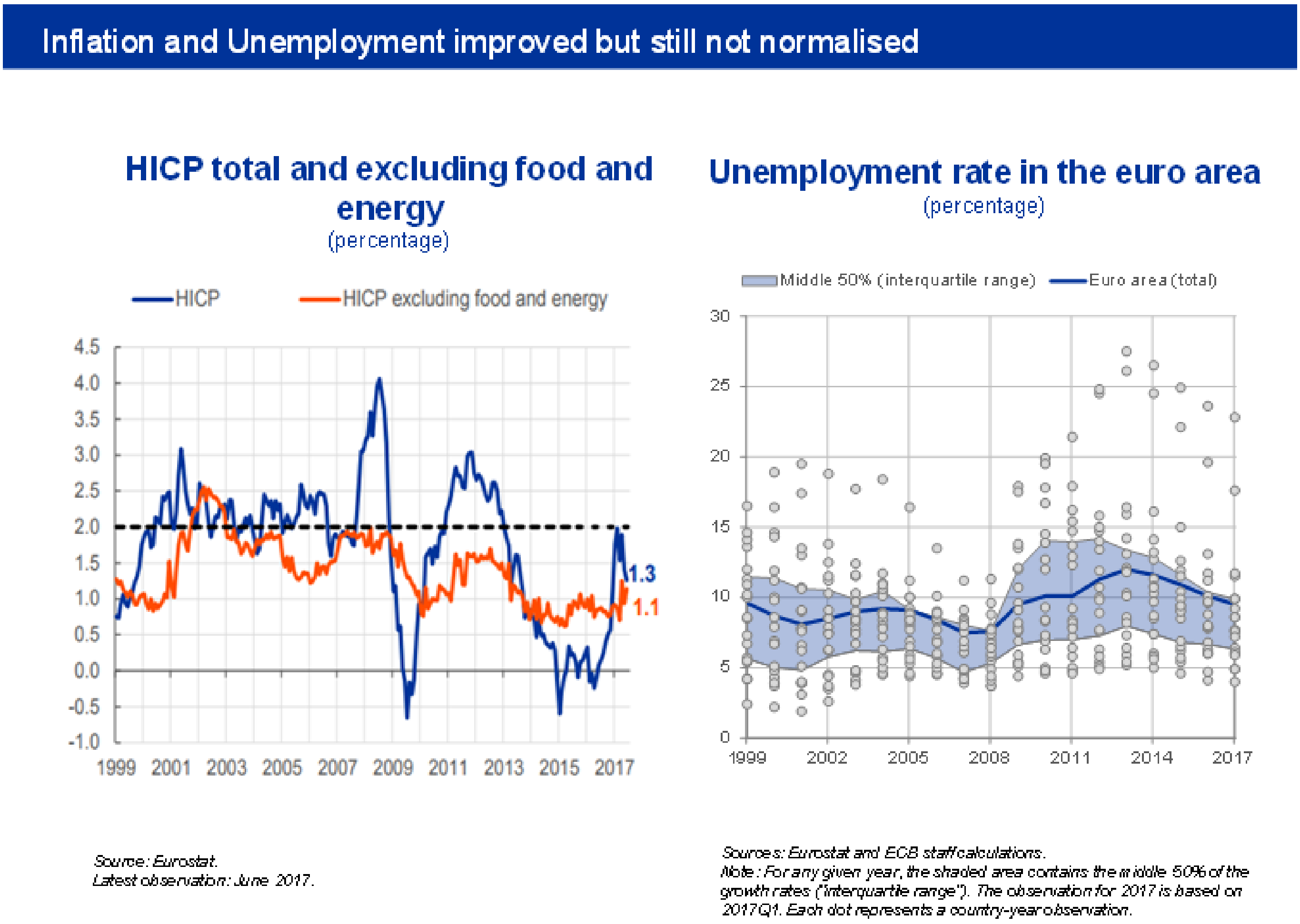
A more robust recovery has also been visible in the labour market where conditions have improved markedly (see slide 3, chart on the left). Employment has risen by almost 6 million since 2013. This stands in contrast to the jobless recovery of 2010, which is another indication of the turning tides in the euro area.

Furthermore, labour market recovery is stronger in countries where it was especially weak. Euro area unemployment rate has receded, despite still too high unemployment rates in some countries (see slide 3, chart on the right).



Slide 3

Notwithstanding these improvements, the growing uncertainty surrounding the strength of the world economic recovery, and of the US in particular, makes the normalisation of inflation and unemployment levels in the euro area more difficult (see slide 4).

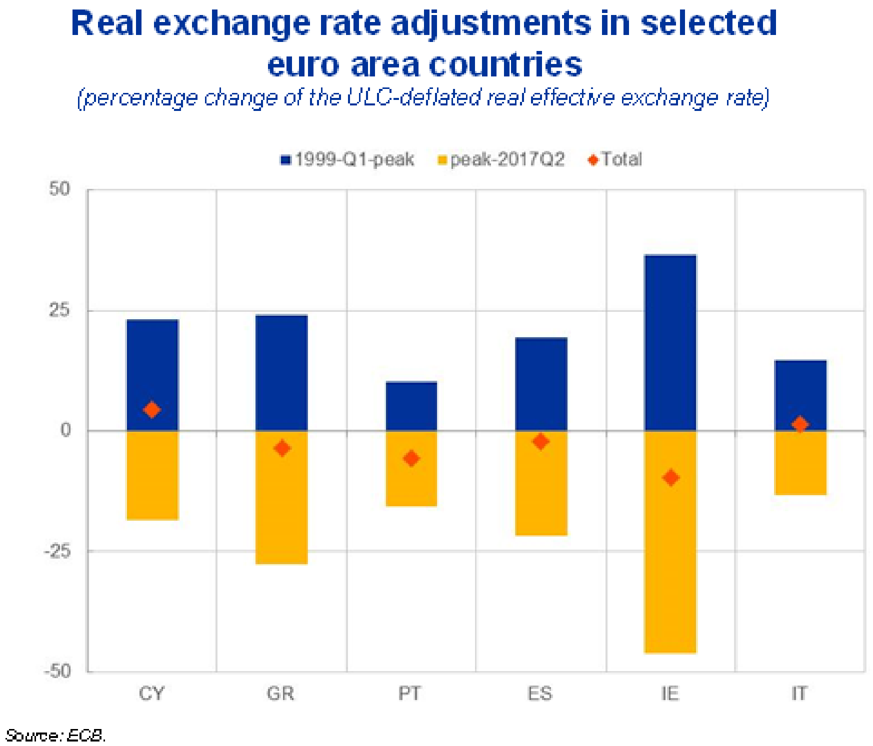


Slide 4

Adjustment and resilience

The increased robustness of the euro area economy is also reflected in the gradual unwinding of the macroeconomic imbalances accumulated before the crisis. In fact, countries that eventually entered a programme had recorded large losses in price competitiveness in the run-up to the crisis. Since the crisis, the initial dramatic increases in the real exchange rates of those countries have largely been corrected (see slide 5) along with a marked improvement in price competitiveness. In most programme countries relative unit labour costs are now below their respective level in 1999.

Adjustment in the periphery: Internal devaluation



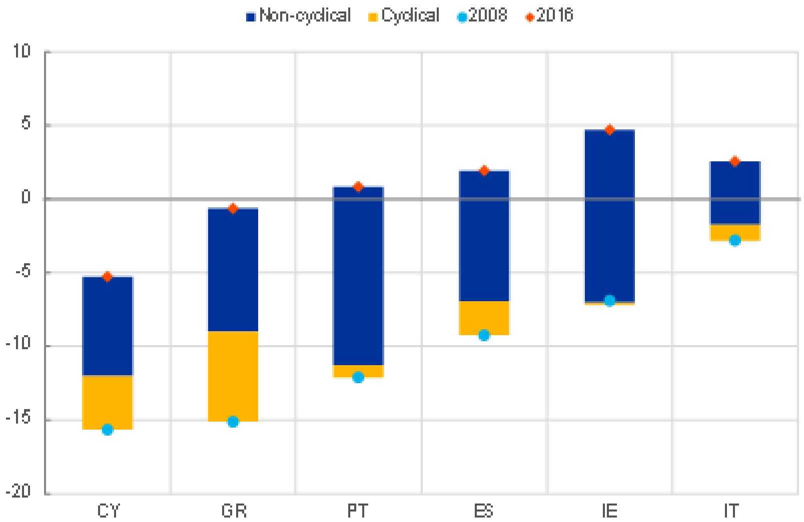
Slide 5

At the same time, the large current account deficits registered in several euro area countries before the crisis have narrowed significantly or even turned into surpluses (see slide 6). Importantly, the largest part of the current account adjustments is estimated to be non-cyclical and therefore likely to be sustained as the recovery continues.[1] From this perspective, it is very relevant that (with the exception of Greece) the external account improvements were also a consequence of dynamic export growth and not just resulting from import compression due to the recessionary period.

Adjustment in the periphery: Sustainable current account corrections

Current account adjustments in selected euro area countries

(percent of GDP)



Source: ECB staff estimations.
Note: The estimates are based on an empirical model linking the current account balance to a broad set of cyclical, fundamental and policy variables.

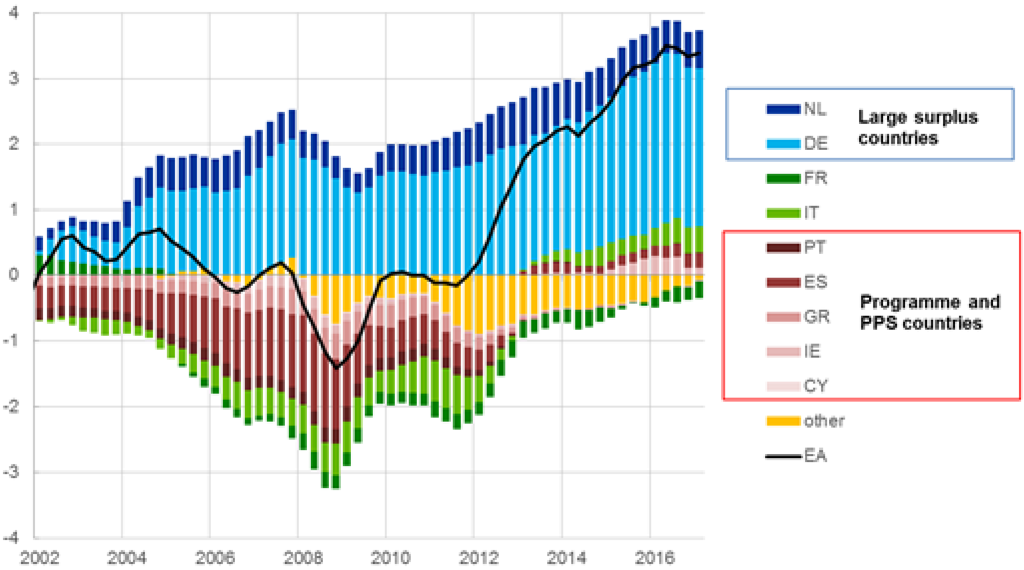
Slide 6

The impressive correction of current account deficits in some euro area countries has been mirrored in a significant adjustment of *intra*-euro area trade and current account imbalances (see slide 7). As a result, some euro area countries with large external surpluses now record current account surpluses mostly vis-à-vis countries outside the euro area.

Adjustments in euro area current account balances

Euro area current account balance: breakdown by country

(percent of euro area GDP)



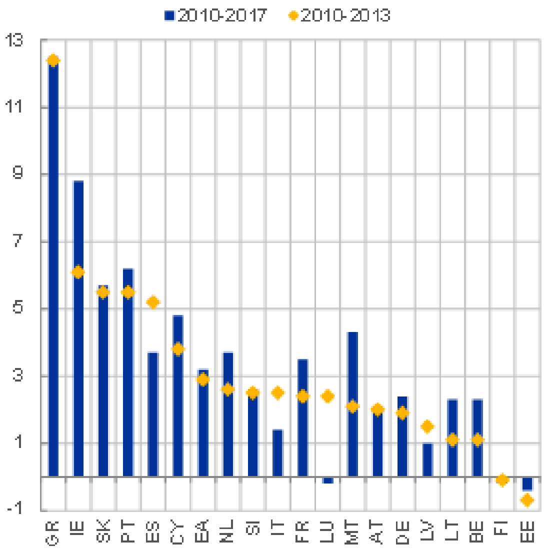
Sources: ECB and Eurostat.
Notes: "Other" includes a statistical discrepancy term since the data at the country level do not necessarily add up to the euro area total.

Slide 7

Fiscal deficits have been reduced. Fiscal effort, measured as the change in the structural primary balance, has been significant in many countries (see slide 8, chart on the left). As a result, and also thanks to the reduction in interest payments, fiscal deficits are now in almost all countries below 3% of GDP (see slide 8, chart on the right).

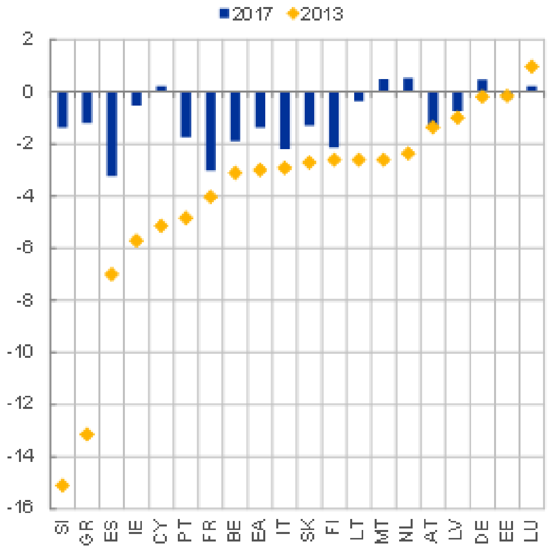
Adjustment in the periphery: Strong fiscal effort and deficit reduction

Changes in the structural primary balance
(percent of GDP)



Source: European Commission.
Note: Structural balances are adjusted for the impact of the business cycle and one-offs factors.

General government net lending (percent of GDP)



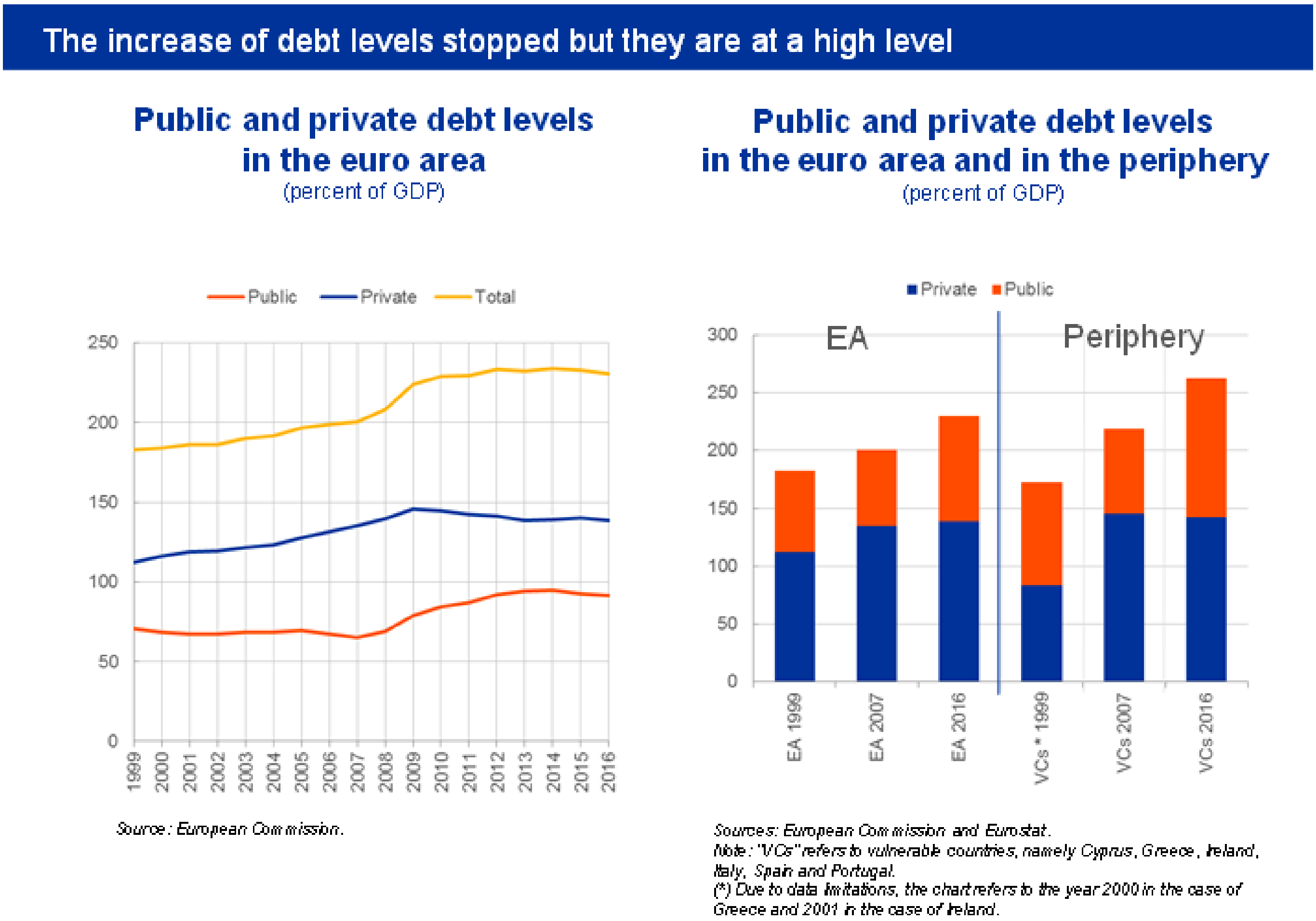
Source: European Commission.

Slide 8

Beyond fiscal deficits, the level of public and private debt has also posed concerns in some countries. In the run-up to the crisis, it was not so much public debt but rather the private sector indebtedness that increased substantially (see slide 9). This should be underlined because, as Jordà, Schularik and Taylor (2016) said: "…private credit booms, not public borrowing or the level of public debt, tend to be the main precursors of financial instability in industrial countries." [2]

It was only after the crisis that public debt increased, on account of the necessary interventions. More recently, both public and private sector debt levels stabilised, thanks to consolidation efforts and private sector deleveraging, even if remaining rather diverse across countries.

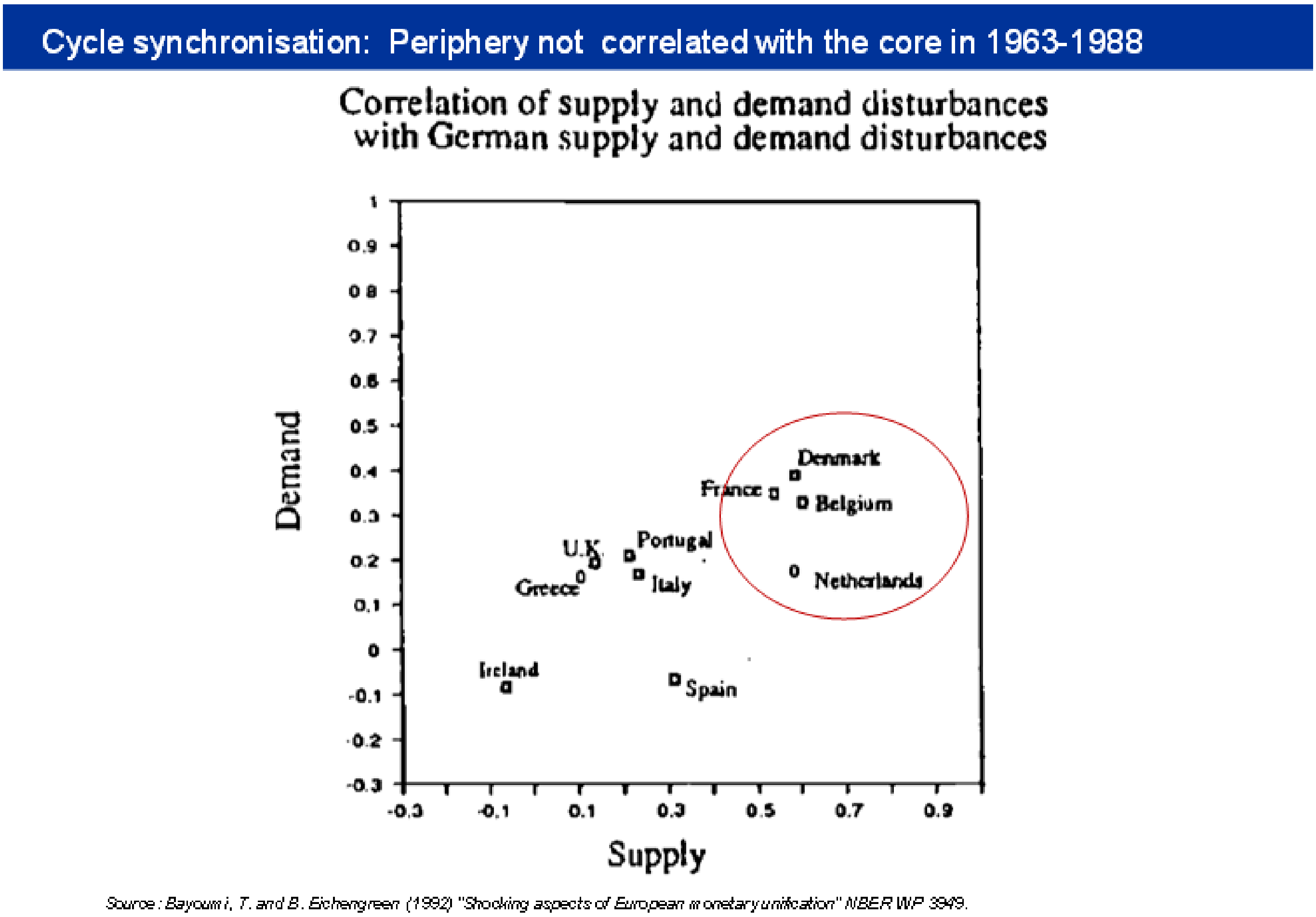
Focusing on the programme and post programme countries, private debt levels in percent of GDP are currently lower than 10 years ago in Spain, Portugal and Greece, but still higher in Cyprus and Ireland. Public debt however is higher than at the start of the crisis, across the euro area. Increasing the growth potential of euro area economies would help to achieve a downward shift in the debt-to-GDP ratios.



Slide 9

Synchronisation of economic cycles and symmetric shocks

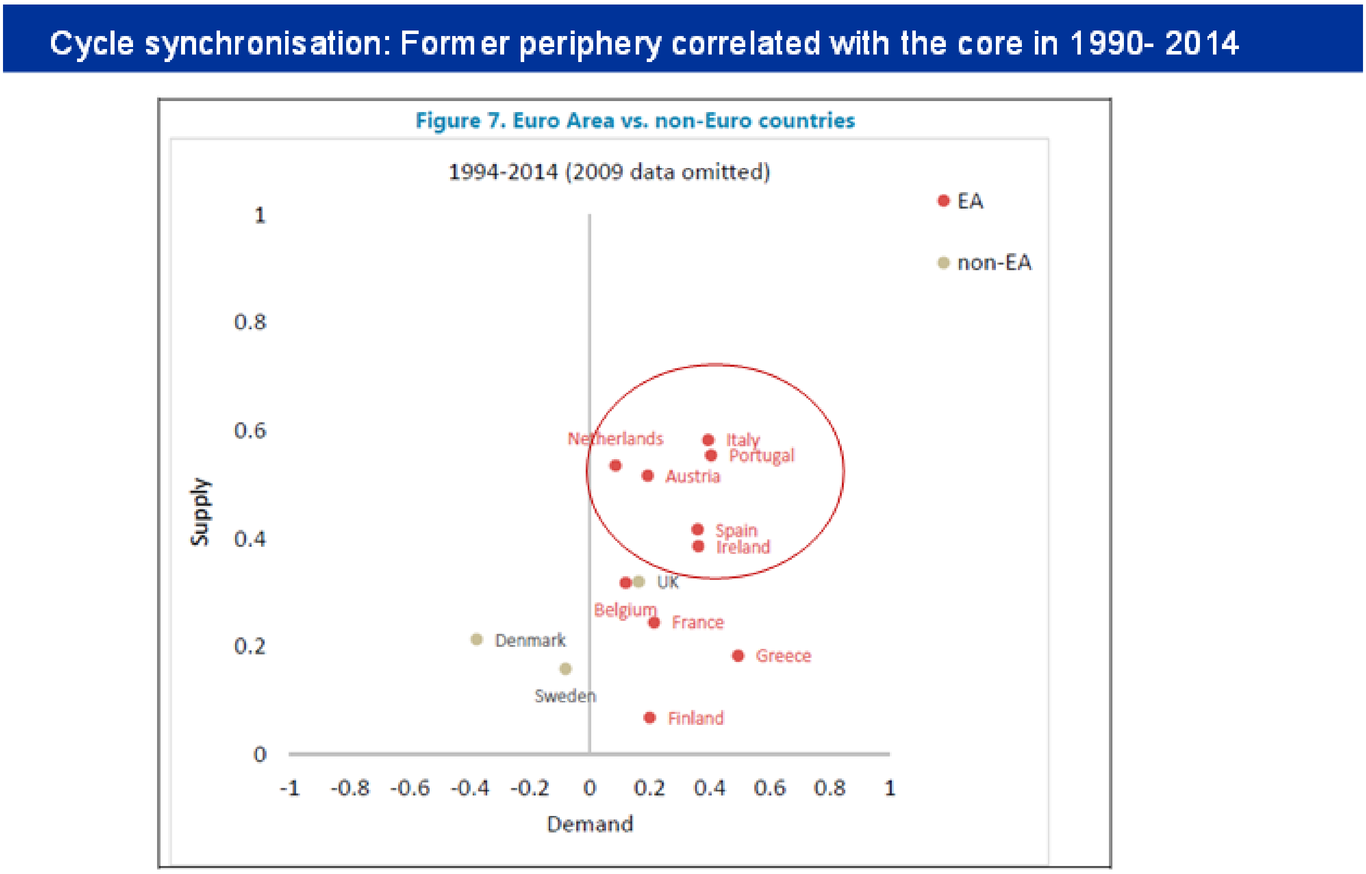
An important aspect stemming from the theory of optimal currency areas, relates to the risk of asymmetric shocks to countries in a monetary union, placing them in different phases of the economic cycle, which would make a single monetary policy inadequate for a smooth functioning of the union. This concern was in everyone’s mind when the EMU was being conceived. In 1992, Bayoumi and Eichengreen published a well-known paper,[3] using data from 1963 to 1988 to calculate the correlation of demand and supply shocks of each potential EMU member with Germany, which represented the core of the union in terms of size and level of development. The analysis clearly identified a core of countries well correlated with Germany and a periphery much less correlated to the centre (see slide 10). They also showed that the difference between core and periphery was bigger than the one among the Federal Reserve Regions in the US.



Slide 10

This analysis raised concern of whether EMU could face the problem of asymmetric shocks thus hampering the single currency performance. Some other authors[4] pointed nevertheless to the fact that synchronisation could be endogenous to the formation of the monetary union itself, meaning that the adjustment to the single monetary policy would lead member countries' cycles to become more aligned.

Interestingly, this is precisely what Bayoumi and Eichengreen found out when conducting the same analysis in 2017, with data from 1990 to 2014. Remarkably, most of the countries (with the exception of Greece) that were previously in the periphery are now more correlated with Germany than some of its own neighbours (see slide 11). From this point of view (synchronisation of cycles) there is now a new core in the euro area to which most of the geographically periphery now belongs.



Source: Bayoumi, T. and B. Eichengreen (2017) "Aftershocks of monetary unification: hysteresis with a financial twist" IMF WP/17/55.

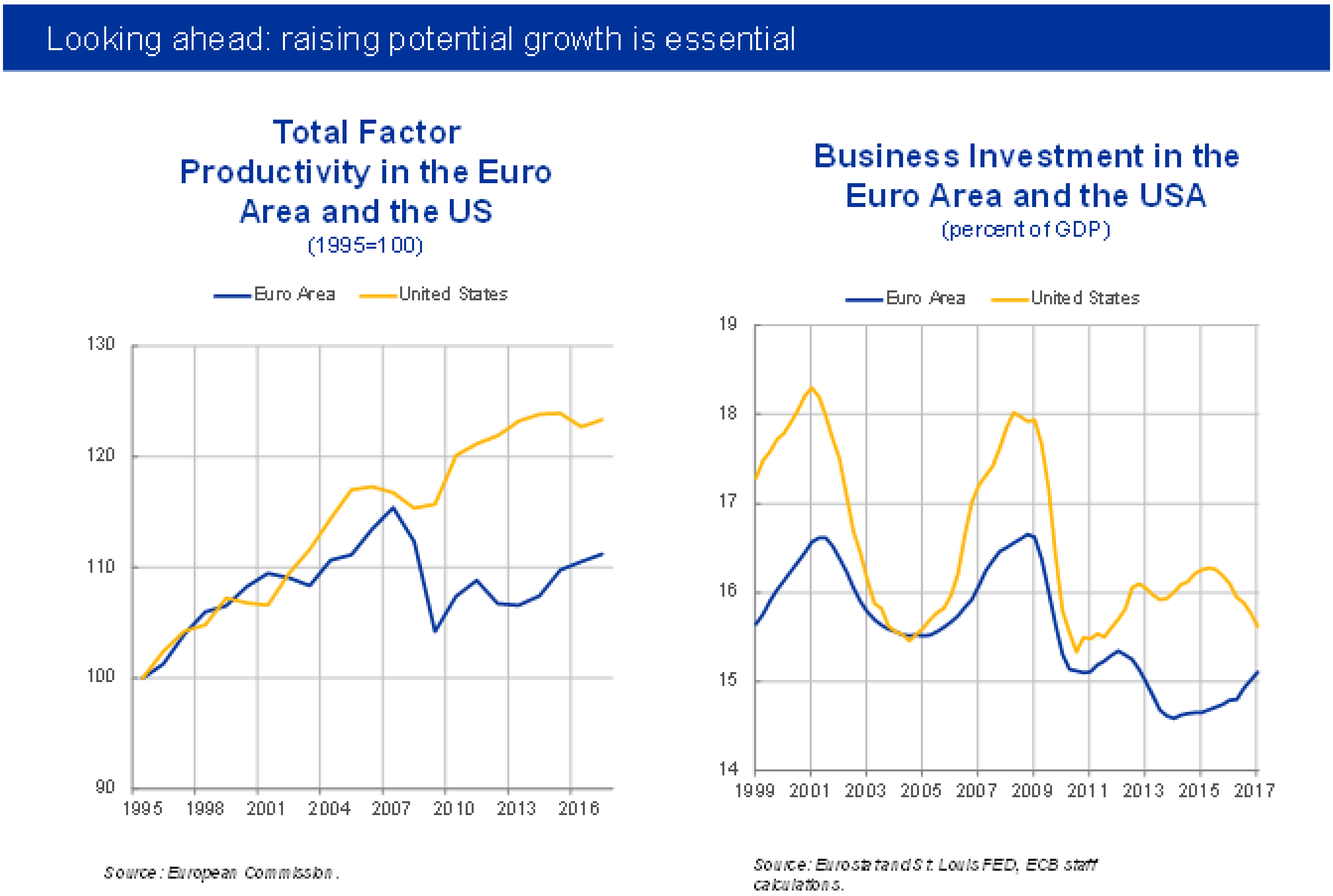
Slide 11

This is particularly important as a sign of robustness of the euro area, indicating that all countries were able to restore competitiveness within the euro and return to growth thus ensuring a better transmission of the single monetary policy. The euro area is now better prepared to withstand financial market shocks.

Future risks and challenges

These signs of recovery and resilience should not lead to any complacency towards the future of the euro area. Besides the tasks of normalising inflation and reducing unemployment to more acceptable levels in all countries, many structural and institutional reforms are needed to safeguard and improve the future functioning of the euro area. Both the Five Presidents Report on “Completing Europe’s Economic and Monetary Union” (2015) and the recent EU Commission paper on the “Deepening of the Economic and Monetary Union” (2017), provide sufficient guidance on the way to proceed. Next steps include: completing the Banking Union, creating a Capital Markets Union, creating a Macroeconomic Stabilisation function at the euro area level, possibly with a European Treasury and a full European Monetary Fund. These institutional reforms would be crucial for the EMU to face two of the most fundamental objectives to consolidate its future: increase its growth potential and restore a path of real economic convergence among its member countries.

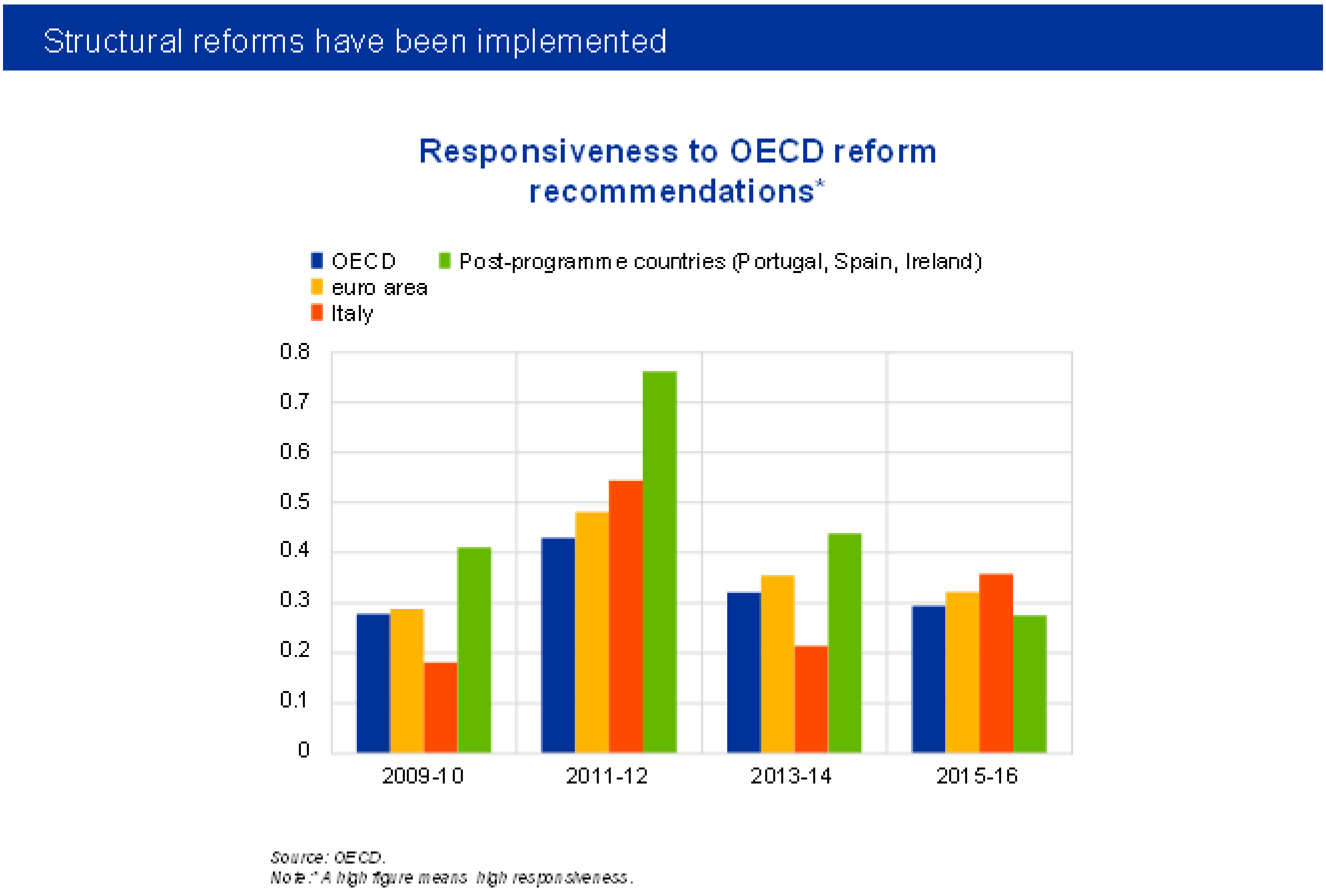
While at present the recovery is on track, looking ahead the growth potential of euro area economies needs to be strengthened. Further efforts thus need to be devoted to strengthening productivity growth which requires an expansion of productive investments. Both the recovery of productivity and that of business investments in the euro area has been lagging behind that of the US (see slide 12).



Slide 12

There have been important reform efforts in the euro area in recent years supporting the recovery of potential growth. Since 2009 the reform responsiveness in the euro area has exceeded the OECD average (see slide 13). In particular, countries which had financial assistance programmes took a number of reforms to improve their resilience and competitiveness, in particular through reforms in product market regulation, employment protection and wage flexibility, and through revamping of active labour market programmes. Many of these reforms are expected to support potential growth but they tend to exert their full impact with a considerable lag.

At the same time, the business environment in some of the euro area countries is still well behind that of countries near the frontier, and reform needs are significant.



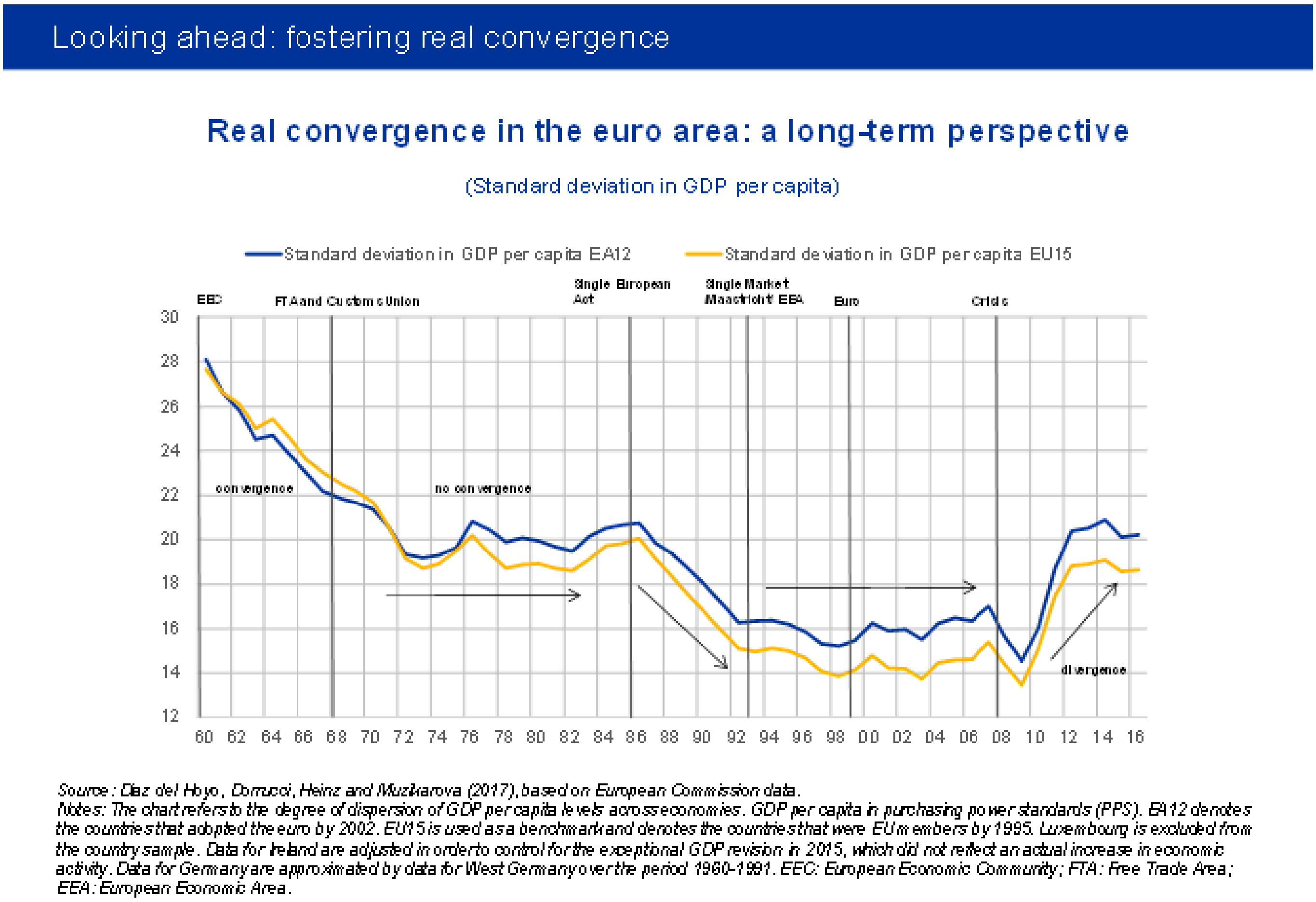
Slide 13

A final challenge relates to convergence of income levels in the euro area. Gradual but real economic convergence of income per capita across all countries is the ultimate condition for a healthy and consolidated economic and monetary union prepared to resist the test of time.

Taking a long-term perspective[5] – from 1960 till today – and focusing on the twelve initial members of the euro area, it is striking that the euro area crisis (2010-13) was the only period when strong divergence materialised in the dispersion of GDP per capita levels.

However, it is since about 1993 – well before the adoption of the euro – that this group of countries does not experience phases of marked income convergence, such as those recorded in the periods 1960-1972 and 1986-1992. The same applies to broader groupings of mature economies in the European Union, such as the Member States which had joined the EU by 1995 (see slide 14).

Focusing on the individual euro area countries with the greatest catching-up needs, while some have made significant progress, others have stalled or even reversed their process of real convergence. Such countries are concentrated in the South of Europe, with Greece and Italy being the two most prominent examples.



Slide 14

The re-establishment of a path towards real convergence in the euro area is, therefore, a vital and difficult challenge. Some tentative signs of reversal of the divergence experienced during the euro area crisis are visible since 2014. But more needs to be done, along the lines sketched in the Five Presidents Report and the Commission paper already mentioned. Also crucial in this regard will be the enhancement of countries' economic structures through improved institutions and governance.

Let me conclude. It is clear that the euro area recovery is becoming increasingly robust. The upturn is not only strengthening and broadening, but is also starting to rest on more solid structural foundations. The daunting challenges ahead may still have an existential nature but they can be overcome with time. However, the wise attitude now is not to predict the future but to prepare it.

Speech by Michel Barnier at the press

[conference following the third round of Article 50 negotiations with the United Kingdom]

Bonjour à chacune et chacun d'entre vous,

David Davis et moi-même, avec nos équipes, venons de terminer ce troisième round de négociation. Des équipes que je veux personnellement remercier, de part et d'autre, pour leur engagement et pour leur compétence.

Lundi, en accueillant David, j'ai dit *"I am concerned"*, j'ai dit ma préoccupation.

Le temps passe vite et chaque jour qui passe nous rapproche de la date de départ du Royaume-Uni de l'Union européenne, le 29 mars 2019 à minuit.

La question fondamentale à laquelle nous devons apporter une réponse est de savoir si ce jour-là, le 29 mars 2019 à minuit, nous aurons bien organisé le retrait ordonné du Royaume-Uni ou si le Royaume-Uni quitte l'Union européenne sans accord, avec toutes les conséquences que nous avons déjà expliquées.

De notre côté, dans notre intérêt commun, nous pensons qu'un accord est la meilleure issue.

Mesdames et Messieurs,

Cette semaine, nous avons apporté des clarifications utiles sur beaucoup de points, par exemple le statut des travailleurs frontaliers, l'agrégation ou la totalisation des droits de sécurité sociale et les procédures en cours devant la Cour de justice, pour n'en citer que trois.

Mais nous n'avons enregistré aucun progrès décisif sur les sujets principaux, même si, je veux le dire, la discussion que nous avons eue sur l'Irlande a été fructueuse.

Sur ce sujet que je continue de suivre personnellement, comme d'ailleurs tous les autres, nous avons fait de vrais progrès sur la question du *Common Travel Area*, sur la base des garanties données par le Royaume-Uni, et nous avons clarifié le travail qui reste à faire, de manière constructive, notamment sur la coopération Nord-Sud dans le cadre du *Good Friday Agreement*.

Mais, je le redis, le temps presse pour parvenir comme nous le souhaitons à un accord global.

Au rythme actuel, nous sommes loin de constater des progrès suffisants pour pouvoir recommander au Conseil européen d'engager la discussion sur la future relation entre le Royaume-Uni et l'Union européenne, en même temps que nous finaliserons durant toute l'année de 2018 l'accord de retrait.

Voilà de notre côté ce que nous retenons de ce troisième round.

Je voudrais, puisque j'ai la chance de pouvoir m'exprimer devant vous aujourd'hui, rappeler trois points sur le cadre général de cette négociation qui doivent être bien compris et parfois mieux compris.

Cette négociation est inhabituelle et sans précédent.

C'est en particulier vrai pour la Commission européenne qui agit, avec toute l'expertise de ses services que je remercie, sous l'autorité du Président Juncker, dans le cadre d'un mandat quilui a été fixé dès le début, dès le premier jour par les 27 chefs d'Etats et de gouvernement réunis en Conseil européen sous la présidence de Donald Tusk.

Et naturellement, nous travaillons en confiance avec le Parlement européen, son Président Antonio Tajani, le Parlement européen qui s'est exprimé en tout premier, à une très large majorité, en votant une résolution. Je recommande que personne ne sous-estime ce rôle du Parlement européen.

C'est ce mandat, adopté à l'unanimité par les 27 chefs d'Etat et de gouvernement que je mets scrupuleusement en œuvre. Ce mandat est clair et précis:

- Il organise le *sequencing*. Il nous demande tout simplement de mettre les choses dans le bon ordre pour réussir.
- Il évoque clairement les conditions d'une période de transition si le Royaume-Uni la demande.
- Et il nous demande d'organiser ce retrait ordonné en tenant compte d'une future relation, ce que j'ai appelé moi-même dès le début "*the new partnership",* le nouveau partenariat.

Ceux qui chercheraient la moindre différence entre ce que fait cette équipe européenne de négociation et ce que veulent les 27 Etats membres perdraient leur temps.

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Secondly, as stipulated precisely in the *Guidelines of the European Council*, protecting the EU legal order and protecting the integrity of the Single Market are core principles of my mandate.

The UK decided to leave the European Union.

The UK government decided to leave the Single Market and the Customs Union.

We respect this sovereign decision.

But one thing is clear: The Single Market, the EU capacity to regulate, to supervise, to enforce our laws, must not and will not be undermined by Brexit.

The UK strongly contributed to the development of our single market which is the foundation of the EU. It understands well, very well, how it works.

The European Council guidelines state that the Union will preserve its autonomy of decision-making.

The UK wants to take back control, it wants to adopt its own standards and regulations.

But it also wants to have these standards recognised automatically in the EU. That is what UK papers ask for.

This is simply impossible. You cannot be outside the Single Market and shape its legal order.

Thirdly, the first phase of this negotiation is about creating trust.

Let me take two examples where we still need to build trust.

On citizens' rights

We have clarified a few points this week, but we need to go further to reassure citizens.

Over the summer, around one hundred EU and EEA citizens living lawfully in the UK received deportation letters.

The UK government quickly recognised that this was a mistake.

But this is not the first time that something like this has happened.

It reinforces the need to ensure that citizens' rights are directly enforceable in front of national jurisdictions, under the control of the European Court of justice, a point on which we disagree today.

On the financial settlement

EU taxpayers should not pay at 27 for the obligations undertaken at 28. This would not be fair.

In July, the UK recognised that it has obligations beyond the Brexit date.

But this week the UK explained that these obligations will be limited to their last payment to the EU budget before departure.

Yet we have joint obligations towards third countries. For example:

- We have guaranteed long-term loans to Ukraine, together.
- We jointly support development in Africa, the Caribbean and Pacific countries through the European Development Fund.

After this week, it is clear that the UK does not feel legally obliged to honour these obligations after departure.

We have also jointly committed to support innovative enterprises and green infrastructure in European regions until 2020. These are not recognised by the UK as legal obligations.

With such uncertainty, how can we build trust and start discussing a future relationship?

We need to address together these issues seriously and rigorously.

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Mesdames et Messieurs,

Je n’ai jamais pensé que cette négociation serait facile. J’ai toujours su et dit devant vous, y compris le premier jour, en novembre l’année dernière, qu’elle serait complexe et que le Brexit aura beaucoup de conséquences sociales, humaines, techniques, juridiques, financières, économiques.

Mais il y a, j’ai l’ai constaté durant ces trois jours, de l’engagement de deux côtés, dans nos deux délégations. Je veux le dire. Et cela renforce notre détermination.

Mon état d’esprit au nom des 27 est d’aboutir à un accord.

Une fois encore, le temps passe vite, très vite, et s’il le faut pour réussir, nous sommes prêts du côté des 27 et du côté des institutions européennes à intensifier le rythme des négociations.

Flash estimate – August 2017-Euro area annual inflation up to 1.5%

Euro area annual inflation is expected to be 1.5% in August 2017, up from 1.3% in July 2017, according to a flash estimate from **Eurostat, the statistical office of the European Union.**

Looking at the main components of euro area inflation, energy is expected to have the highest annual rate in August (4.0%, compared with 2.2% in July), followed by services (1.6%, stable compared with July), food, alcohol & tobacco (1.4%, stable compared with July) and non-energy industrial goods (0.5%, stable compared with July).

Full text available on EUROSTAT website

[Opening and closing remarks of First Vice-President Frans Timmermans on the Rule of Law in Poland, at the European Parliament's Committee on Civil Liberties, Justice and Home Affairs]

Opening Remarks

Last time we spoke about this issue in this Committee was on 22 March 2017. My task today is to update you about what has happened since.

Four laws have since that moment been adopted by the Polish Parliament: the law on the National School of Judiciary, the law on the Ordinary Courts Organisation, the law on the Supreme Court and the law on the National Council for the Judiciary.

Late July, the Commission determined after careful analysis that the four laws, as adopted by the Polish Parliament, would have a very significant negative impact on the independence of the Polish judiciary and would increase the systemic threat to the rule of law.

We acknowledge and welcome that, for now, two of the four laws have been vetoed by President Duda. However, the fact that two of the four laws have been signed and the future of the other two is unclear meant that we had to set out clearly our concerns in a new Rule of Law Recommendation.

This third Recommendation addressed to Poland on 26 July complements the previous ones and presents the grave concerns of the Commission on the planned reforms of the Polish judiciary. It also asks the Polish authorities to restore the independence and legitimacy of the Constitutional Tribunal as guarantor of the Polish Constitution. The Commission asked that the Polish authorities address these concerns within one month.

On 28 July, the Commission also launched an infringement procedure against Poland for breach of EU law by the law on the Ordinary Courts Organisation, following its publication on the same day. And we also asked for a reply within one month.

To summarise, the Commission has spent over a year laying out its concerns with regard to the Rule of Law in Poland. We have analysed, identified, recommended and warned. We have sent three Recommendations and have launched an infringement procedure on the Law on Ordinary Courts.

To complete the picture, you should also know that Polish government refuses to follow the interim measures issued by the European Court of Justice with regard to the logging in the Bialowieza Forest and the Polish government has announced further measures with regard to, what is called, ‘deconcentration of the media’. Also, Commissioners Jourova and Thyssen sent a joint letter to the Polish authorities outlining the Commission’s concerns as regards the Polish provisions introducing different pensionable ages for men and women. After years of progress with regard to equality between women and men Poland is now the only EU country on the verge of moving in the opposite direction.

On 28 August, we received a reply to our third recommendation. Before replying, the Polish government twice requested more clarifications on our concerns, which we promptly and elaborately provided. We are still analysing the reply carefully. However, also from Polish press statements, I can already inform you that the Polish reply does not announce any concrete measures to address the issues raised by the Commission. Our analysis will carefully focus on the motivations they have given. I cannot tell you today what will be the next step of the Commission. We will have to discuss that also in the College, and at some point also take it to the Council.

However, let me make some general remarks about where we stand. We have dedicated a large number of pages explaining in detail our concerns and have done so as meticulously and thoroughly as we could. Politically we are colour blind when it comes to the Rule of Law. Moreover, our concerns are shared widely – the Venice Commission, the Council of Europe, the United Nations, the Network of the Presidents of Supreme Courts and of the Councils for the Judiciary, lawyers associations and NGOs. On 16 May, we had a first extensive discussion in the General Affairs Council and there was broad agreement around the table that the rule of law is a common interest and a common responsibility of EU institutions and Member States. A very broad majority of Member States supported the Commission’s role and efforts to address this issue. Member States called upon the Polish government to resume the dialogue with the Commission with a view to resolving the pending issues and looked forward to being updated as appropriate in the General Affairs Council.

Incidentally I have invited the Polish Ministers to come to Brussels to discuss these issues with me and I did not get an official reply but in the media I saw that the Foreign Minister says he sees no merit in coming to talk to us. So I’ve tried really to have this dialogue but on the other side there is apparently no wish to do so. But we remain open. Any moment they want to come and talk to us, I am open to that, obviously.

This Parliament – directly elected European Parliament – has an important role to play, and will continue to play an important role because if this Parliament has a fundamental role it is to uphold of our common European values, and the Rule of Law is pivotal in that.

The Polish government repeatedly has made clear that it does not accept these concerns, that it has won the elections and is fulfilling the will of the people. It has also resorted to attacking the messenger, questioning the Commission’s professionalism, questioning the Commission’s legitimacy, and claiming that it isn’t doing anything that other Member States haven’t done themselves. I honestly would beg to differ.

We have always said that our stated objective is not the imposition of sanctions or resorting to Article 7. On the contrary, we are looking for a real, constructive dialogue in order to redress the Rule of Law situation in Poland. However, we have also made clear our determination to use all our tools, all the tools that we have at our disposal as guardians of the Treaties, when this is necessary. We remain open to dialogue; we remain open to finding constructive solutions. But at the same time we must discuss internally in the Commission, with the Member States in the Council and with you here in Parliament the new situation that has now arisen.

The reason we won't let go has to do with two fundamental issues. One, obviously, the Rule of Law is a value in itself, it is – so to say – who we. It is what defines as Europeans; Rule of Law-based democracies. But two, it also has to do with the way the EU functions. First and foremost, the Internal Market. This market can only really function if there is trust and confidence between governments, between economic operators, between citizens. Trust and confidence that when doing business in Europe and when there is a conflict, we are all equal under the law, and we all have access to independent judges. As you know, national judges are EU judges. They apply EU law directly. They also have a direct unimpeded access to the European Court of Justice. And it just will not function if this direct access is blocked because there is a political filter or political interference by government. The independence of the judiciary is essential to make the whole EU system function. You have to rely on the fact that national judges are also EU judges. And if you can't rely on the fact- if you go back to situation where the ruling of a court is determined by a phone call from party central, then we have a serious problem. In that context I have to say independence of national judges is key for the effective cooperation between Member States in the area of Justice and Home affairs. Suffice to refer to the principle of mutual recognition of national Court decisions in the context of, for example, the European Arrest Warrant and the 'Brussels I' regulation.

Of course, of course, democratically-elected Governments are free to implement judicial reform. The Commission does not contest the right of the Polish government to introduce judicial reforms. That's not the point at all. But we do maintain that judicial reforms must respect the Rule of Law as one of the fundamental values which all Member States signed up to when they joined the EU, signed and ratified the European treaties. Everybody living in the EU has the right to rely on an independent national and European judicial system and deserves courts free from any form of interference, including by politicians.

As I said, we will discuss in the College the next steps and for this reason I'm very interested to hear what you have to say about this. Upholding Rule of Law is a shared responsibility of all EU institutions and of all Member States. Of course, I intend to discuss this matter in the Council of Ministers as agreed in May that I would come back and report to them. In conclusion I would to thank you, and in particular this Committee and its members, for the continuous efforts to uphold the rule of law in the EU and for supporting the Commission's actions concerning the situation in Poland.

Closing Remarks

I was a student in 1980 and I remember vividly seeing Lech Walesa stand up for common European values. I remember vividly in the 1980s through the years I was a student and I was a soldier afterwards, that we thought that the vision of Europe was eternal, that it could never been broken and we needed stability. But it was Solidarnosc and Charter 77 who kept the dream alive of a Europe undivided. And without them Europe might even be divided today, in different lines, different ways. Because regardless of who is in charge in Russia today or yesterday, they really liked a divided Europe. And they would like a divided Europe again in the future.

We fight for European unity. European unity based on common values. European unity based on law. European unity based on the respect for law, for treaties signed and ratified by sovereign parliaments. And if in those treaties it is the duty of the Commission to assure that Member States actually respect the treaties they have signed and ratified, this Commission will take this duty seriously even if politically this might be extremely difficult.

I maintain that Poland today is more sovereign, freer, has borders that are more secure, than for centuries in the past. It has been perhaps a thousand years since the Polish people have been as free to decide their own destiny. Poland was pushed around on the European map. If Germany was powerful Poland would be 300 km to the East, if Russia was powerful Poland would be 300km to the West. But Polish people did not get to the side where the country was. Now it does. And I just don't accept people saying that the European Union takes away sovereignty from Poland. No, it creates a sovereignty in Poland that Poland hasn't had for centuries.

This is good for all of us, for all of us. I for one cannot imagine a successful European Union without a prosperous, fully integrated Poland in that European Union.

When we talk about the Rule of Law in Poland today, we talk about the destiny of this continent, the destiny of Europe. This is not just about Poland. I wanted to say this as background because this is how I see the situation. This is how serious it is. And those who say that the Commission has got it all wrong – can I remind you that we are of exactly same view as for instance the Venice Commission, which made its analysis upon request of Polish government. So the Polish government asked for this analysis and when it got it but it didn't like it, it just decided to ignore it. If you say the Commission doesn't understand anything, please observe that we are not alone in this. Please also observe – let me just stress this very clearly – that when we discussed the issue in the Council in May – this sometimes get overlooked – an overwhelming majority of Member States supported the position of the Commission. This is not the Commission on her own. Parliament has been extremely clear about this. So I think the three institutions are doing their utmost to help Poland resolve the situation.

We had the answer of the Polish government and we will reply to them. But I want to say, because some of the issues related today, please don't accept the point that other Member States have identical solutions. We will elaborate on that when we respond but that is not the case. There is not one Member State where the Minister of Justice can arbitrarily fire a judge without any conditions set. Fire judges, hire judges. Whenever we put issues on the table and somebody shouts this is not true, please look to the text, please look to the text. We did. We have written Recommendations in great detail. The Polish government over the summer sent two letters asking for clarifications. We immediately responded by given these clarifications. Please, let’s stick to those texts and then we’ll see how it comes.

What I find interesting or slightly ironic is this constant demand for respect – which I think we have given, I have always been very respectful – but it has not really been reciprocated may I say.

We are open for dialogue and I don’t care if they want to continue to attack me personally and call me stupid, incompetent, etc. I will still be there for a dialogue because the matter is so important for the future of Europe.

But there comes a point where we will have to make a choice. Are we going to drop the issue because it is politically too difficult? Or are we going to use all the instruments we have at our disposal? And I will tell you here today, let there be no misunderstanding, there is no way we can drop the issue because this is politically too difficult, because the consequences for the EU as a whole, when the separation of powers is put into doubt, are too grave. And the Commission will use every instrument at its disposal when the separation of powers is at risk.

As I said in my introduction – and I really want to be very clear on that. Not just the principal issue of the Rule of Law but also the whole functioning of the EU in all its aspects depends on the independence of the judiciary and the clear separation of powers. If that is put into doubt, we have to react and help Member States not go that road. That is the issue, the core issue that is at hand today.

And let me be very clear on another issue as well. At the end of the day, the only ones who could determine the fate of the Polish nation are the Polish people. We cannot do that, none of us. But what we can do and what we must do, what we are obliged to do, is to say, when we are of the opinion that Treaties signed and ratified by Member States are being violated, we need to step in and say that this is the case. I think it would be a dereliction of duty on the part of the Commission if we were not to do that. It is my duty to do it, it is the Commission’s duty to do it. And let me just say – for the sake of clarity because I have seen quite lot of that – this is not a personal issue. This is not me talking. When I speak, I speak on behalf of the Commission, and the Commission is united on this. And when I speak, I also speak on behalf of what I see is the thinking of many many Member States. And may I add today since I am here, that after having listened to you, I have the impression I also speak on behalf of a majority of the European Parliament when I talk about this.

Thank you very much.