

Commission continues work on fair and predictable employment contracts – Questions and Answers

[IP/17/3367](#)

What is the Written Statement Directive and why does the Commission consider modernising the rules on labour contracts?

The Written Statement Directive exists since 1991 and gives employees starting a new job the right to be notified in writing of the essential aspects of their employment relationship. The aim of this Directive is to make sure workers are aware of their rights.

The world of work has been and is changing rapidly and new forms of work have emerged. As a consequence, the current Directive no longer covers all types of employment relationships. Under the framework of the European Pillar of Social Rights, the Commission therefore launched a social partner consultation to revise the Directive, so that it would reflect labour market changes.

In addition, the Commission's evaluation of the Directive so far showed that many workers in the EU do not receive a written confirmation of their working conditions or do not receive all the information they need in a timely manner. This includes domestic workers and those who perform on-call work. Moreover, whatever the level of information provided to workers, some practices in some precarious labour relationships may be detrimental to workers, especially as regards casual work: According to a [report](#) by the [European Foundation for the Improvement of Living and Working Conditions \(Eurofound\)](#), casual work (such as zero-hour contracts) raises particular concerns about working conditions and is characterised by low levels of job and income security.

What changes to the Directive are being considered?

Three areas for action are considered. First, the scope of the directive could be clarified, encompassing all workers, including those on short-term assignments or those having new and atypical employment relationships. Second, the revision could reinforce the principle of written information about applicable working conditions and update the list of required elements, for instance with the working schedule, conditions of a probation period or overtime. Third, beyond proper information in writing in a timely manner, the modernised rule could also establish some basics right such as the right to a degree of predictability of work for workers with very flexible contracts or the right to a maximum duration of a probation period.

How are social partners consulted?

As laid down in the Treaty of the Functioning of the European Union, [Article 154 TFEU](#), the Commission has the duty to consult European social partners prior to presenting any legislative proposal in the social field. The consultation must follow a compulsory two-stage procedure. In the first stage the Commission consults the social partners on the possible direction of an initiative. In the second stage, the focus is on the content of an initiative. This process gives the European social partners the possibility to be directly involved and influence the drafting of social proposals. Moreover, social partners may suspend the Commission initiative whilst deciding to enter into negotiations themselves. If this does not happen, the Commission can review the current Directive. The Commission intends to propose a revision of this directive by the end of the year.

What is the position of the social partners after the first stage of the consultation?

The first stage consultation of social partners showed diverging views from workers and employers organisations. While the worker's organisations agreed with the need to enhance the effectiveness of the Written Statement Directive and the goal to improve the working conditions for vulnerable workers, a large majority of employers' organisations rejected those ideas. Therefore the social partners were not in a position to initiate formally the joint negotiation process provided for in Article 155 TFEU. However, they reserved the possibility to do so in the context of the second phase consultation.

In addition to revising the Written Statement Directive, how does the EU deliver on the European Pillar of Social Rights?

On 26 April 2017, parallel to the presentation of the [European Pillar of Social Rights](#) itself, the Commission put forward a number of initiatives related to work-life balance, the information of workers, access to social protection and working time. They all aim at different aspects of the Pillar. The package includes in particular a legislative proposal for a [Directive on Work-Life Balance for Parents and Carers](#) to give families real choices when the birth of a child or a close relative in need of care make more flexible working arrangements necessary. The proposed measures are intended in particular to increase possibilities for men to take up parental and caring responsibilities. This will benefit children and help increase women's participation in the labour market, thereby reducing the difference between men and women in employment which stood in 2015 still at 11.6%p and increases even to 30% when families have young children under the age of 6. This proposal is now under discussion in the European Parliament and Council.

As regards the [Written Statement Directive](#) and [access to social protection](#), the Commission launched consultations with social partners, while it provided legal guidance to the [Working Time Directive](#) in line with a growing body of case law. Also national reforms would be encouraged through policy guidance and coordination in the framework of the [European Semester](#). This will be supported by the new [social scoreboard](#) put forward with the 26 April package. This monitoring tool will replace the current scoreboard of key employment and social indicators to better monitor societal progress at large.

Most of the tools to deliver on the Pillar are in the hands of local, regional and national authorities, as well as social partners, and civil society at large. The European Union – and the European Commission in particular – can help by acting in areas where it shares a competence, by setting the framework, giving the direction and establishing a level-playing field, in full respect of specific national situations and institutional set-ups.

What is the Commission planning on doing on access to social protection?

As a first step, when presenting the European Pillar of Social Rights, the Commission has launched a consultation of the Social Partners to collect their views on the possible direction of an EU action to ensure that people in all forms of employment have adequate access to social protection and employment services. The Commission will take the next step by launching a second stage consultation shortly this autumn.

[Daily News 25 / 09 / 2017](#)

Commission welcomes Council decision to close Excessive Deficit Procedure for Greece

The Commission welcomes the Council decision to close the [Excessive Deficit Procedure \(EDP\) for Greece](#) adopted at today's meeting of the General Affairs Council. This decision follows the [Commission's recommendation to close the EDP](#) in July. The Commission made this recommendation on the basis of the substantial efforts undertaken by Greece to consolidate its public finances coupled with the progress made in the implementation of its ESM stability support programme. The general government balance has improved from a deficit of 15.1% in 2009 to a surplus of 0.7% in 2016. This is well below the 3% threshold set out in the Treaty on the Functioning of the European Union. According to the [Spring 2017 Economic Forecast](#), the positive fiscal performance of Greece is expected to be durable, with the deficit projected to remain below 3% over the forecast horizon. This progress is in addition to the substantial and wide-ranging structural reform packages that Greece has adopted as part of its commitments under the Greek stability support programme, reforms that are being implemented. Following today's Council decision, only three Member States now remain under the corrective arm of the Stability and Growth Pact (France, Spain and the United Kingdom), down from 24 countries during the financial crisis in 2011. Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"Today's decision by the Council is a recognition of the tremendous efforts and sacrifices the Greek people have made to restore stability to their country's public finances. The turnaround since 2009 has no parallels in Europe. We now need to ensure there is constructive cooperation between all institutions and the Greek authorities to ensure a smooth and swift*

conclusion of the third review. That will pave the way for a successful conclusion of the programme next summer and for the opening of a new and optimistic chapter for Greece and for the euro area as a whole.” (For more information: Annika Breidthardt – Tel.: +32 229 56153; Enda McNamara – Tel.: +32 229 64976)

Moving forward on the European Pillar of Social Rights: Commission continues work on fair and predictable employment contracts

The European Commission has entered into further discussions with trade unions and employers’ organisations at EU level on how to modernise the rules on employment contracts, in order to make these contracts fairer and more predictable for all types of workers. With this initiative, the Commission continues to roll out the European Pillar of Social Rights, aiming to create convergence between Member States towards better working and living conditions. Valdis **Dombrovskis**, Vice-President responsible for the Euro, Social Dialogue, Financial Stability, Financial Services and Capital Markets Union said: *“The role of the social partners is central for moving forward with the European Pillar of Social Rights. This is particularly the case when it comes to addressing challenges related to new forms of employment and providing adequate working conditions in atypical forms of employments. (...) The Commission is mindful of the need to balance essential protection for workers with companies’ scope for job creation and labour market innovation. That is what our proposal is about”*. Marianne **Thyssen**, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, added: *“Workers have the right to be informed in writing at the start of employment about their rights and obligations. But millions of Europeans working in non-standard contracts are uncertain about their rights. (...) Ensuring fairer and more predictable employment contracts is a basis for fair working conditions across the EU. This is what we strive for with the European Pillar of Social Rights, which I hope will be proclaimed at the highest political level during the Summit for Fair Jobs and Growth in Gothenburg on 17 November.”* The Commission wants to broaden the scope of the current Directive on employment contracts (the so-called [Written Statement Directive](#)), extending it to new forms of employment, such as on-demand workers, voucher-based workers and platform workers, so that no one is left behind. The current rules should also be modernised, taking account of developments on the labour market in the past decades. By improving the information that is given at the start of an employment contract, workers will be better aware of their rights, and therefore more able to enforce these rights. For employers, bringing the rules up to date will bring more legal clarity and certainty and will avoid unfair competition. Social partners will be able to share their views on the envisaged updates of EU legislation on employment contracts until 3 November 2017. The Commission aims to present a legislative proposal before the end of the year. A full [press release](#) and a [Q&A](#) are available online. *(For more information: Christian Wigand– Tel.: +32 229 62253; Mélanie Voin – Tel.: +32 229 58659)*

Better access to clean drinking water in Bulgaria thanks to Cohesion Policy investments

€35 million from the [Cohesion Fund](#) is invested in the drinking and waste

water network of the city of Vratsa, in North-West Bulgaria. With this investment, the urban area's 111,600 inhabitants will be connected to a modern water distribution system while the upgrading works will result in a considerable decrease in water losses. The project also involves the renovation of a wastewater treatment plant. Commissioner for Regional policy Corina **Crețu** said: *"In some of our regions, easy access to clean drinking water is not a given. The EU invests to improve the everyday lives of all our citizens, to protect their health and preserve their environment. This is EU solidarity at work."* More information on EU funds in Bulgaria is available on the [Open Data Platform](#). (For more information: Johannes Bahrke – Tel.: +32 229 58615; Sophie Dupin de Saint-Cyr – Tel.: +32 229 56169)

L'UE investit pour de meilleures connexions ferroviaires en Italie

74,7 millions d'euros du [Fonds européen de développement régional \(FEDER\)](#) sont investis dans des travaux de modernisation sur 70 km de ligne de chemin de fer reliant la Calabre, à partir de la province de Cosenza, à la région des Pouilles. La Commissaire à la politique régionale Corina **Crețu** a déclaré: *"Cette modernisation de la connexion ferroviaire régionale contribuera à la croissance de l'économie locale, en favorisant le tourisme et les échanges."* Cette ligne fait partie du réseau transeuropéen de transport global ([RTE-T](#)). Le projet vise en particulier à développer le transport intermodal de marchandises, depuis la ville portuaire de Gioia Tauro vers le Nord de l'Italie par les villes de Tarente et Bari, dans les Pouilles. Les travaux devraient être achevés à l'été 2019. Plus d'informations sur les fonds européens en Italie sont disponibles sur la [plateforme Open Data](#). (Pour plus d'informations: Johannes Bahrke – Tel.: +32 229 58615; Sophie Dupin de Saint-Cyr – Tel.: +32 229 56169)

Circular Economy: Commission hosts stakeholder conference on 'Reinventing Plastics'

The Commission will host tomorrow, [26 September](#), a fully-booked [stakeholder conference](#) addressing the challenges and opportunities of plastics. Input from civil society and industry will be an essential contribution in the development of the Commission's Plastics Strategy, an integral part of the new [Industrial Policy Strategy](#) announced by the Juncker Commission to modernise and make industry stronger and more competitive. First Vice-President **Timmermans** and Commissioners **Bieńkowska** and **Vella** will speak at the conference and listen to stakeholders' views on how the plastics industry can evolve to reduce its environmental impact and further boost its economic contribution in Europe. More than 1.4 million people work in the European plastics industry, which is worth over €350 billion each year. However, opportunities for further growth are being missed because of low recycling rates and a high reliance on raw materials. As part of the push to improve the [Circular Economy](#), the Commission's upcoming Plastics Strategy will aim to improve the conditions for investment and innovation, help the industry become more circular, competitive and resource-efficient, create more jobs and further boost growth. The conference is expected to discuss designing products for durability and recyclability, elimination of hazardous

substances, sorting, traceability, incorporating recycled content, alternative feedstocks and biodegradability. The conference will also explore the issue of marine litter, including microplastics and protection of the health of EU citizens, and will look ahead to the discussions on this topic at the [Our Ocean](#) conference in Valletta, Malta [on 5-6 October](#). Tomorrow's stakeholder conference will be webstreamed live [here](#). The full programme can be found [online](#). (For more information: Enrico Brivio – Tel.: + 32 229 56172; Iris Petsa – Tel.: +32 229 93321)

Aides d'État: la Commission autorise l'aide à l'investissement de 5,3 millions d'euros octroyée à l'aéroport de Tarbes en France

La Commission européenne a estimé que l'aide à l'investissement de 5,3 millions d'euros que la France entend accorder à l'Aéroport de Tarbes-Lourdes-Pyrénées en vue de moderniser son infrastructure était conforme aux règles de l'UE en matière d'aides d'État. La modernisation consiste en la rénovation des chaussées aéronautiques, y compris la piste, les voies de circulation et les aires de stationnement, sans une augmentation de leur capacité. Sans ces travaux, les chaussées aéronautiques ne seraient plus en conformité avec les normes de sécurité et le trafic commercial devrait cesser. La rénovation facilitera le développement régional, favorisera la mobilité des citoyens européens et assurera une bonne connectivité de la région, sans fausser indûment la concurrence au sein du marché unique. La Commission a donc conclu que le projet était conforme aux règles en matière d'aides d'État, et en particulier aux critères établis dans les [lignes directrices de 2014 concernant l'aviation](#). De plus amples informations seront disponibles sous le numéro [SA.42413](#) dans le [registre des aides d'État](#) figurant sur le [site web de la DG Concurrence](#) de la Commission une fois que tous les problèmes de confidentialité auront été résolus. (Pour plus d'informations: Lucía Caudet – Tel. +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)

Mergers: Commission clears acquisition of Miller Homes by Bridgepoint

The European Commission has approved, under the EU Merger Regulation, the acquisition of Miller Homes Holdings Limited by Bridgepoint Group Limited, both of the UK. Miller Homes is mainly active in residential real estate development across the UK. Bridgepoint is a private equity group. The Commission concluded that the proposed acquisition would raise no competition concerns because the companies are not active in the same or related markets. The transaction was examined under the simplified merger review procedure. More information is available on the Commission's [competition](#) website, in the public [case register](#) under the case number [M.8619](#). (For more information: Lucía Caudet – Tel.: +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)

Mergers: Commission approves the acquisition of Fujitsu Ten by DENSO

The European Commission has approved under the EU Merger Regulation the acquisition of sole control over Fujitsu Ten Limited by DENSO Corporation, both of Japan. Both DENSO and Fujitsu Ten are suppliers of advanced automotive technology, systems and components. The Commission concluded that the proposed acquisition would raise no competition concerns given the limited overlap between the companies' activities in Europe. The transaction was examined under the simplified merger review procedure. More information is available on the Commission's [competition](#) website, in the public [case register](#) under the case number [M.8625](#). (For more information: Lucía Caudet – Tel.: +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)

Mergers: Commission clears acquisition of Prénatal Retail Group by Artsana

The European Commission has approved, under the EU Merger Regulation, the acquisition of sole control of Prénatal Retail Group by Artsana, both of Italy. Prénatal Retail Group is active in the retail sale of baby care products and toys through its specialised stores Prénatal, Bimbo Store, Toys Center and King Jouet. Artsana is active in the manufacture and supply of baby care products, including the brand *Chicco*, and health care products, as well as in the retail sale of baby care products through specialised stores. The Commission concluded that the proposed acquisition would raise no competition concerns because Artsana already controlled Prénatal Retail Group (jointly with Giochi Preziosi) before the transaction, and the change from joint control to sole control by Artsana will not result in a significant change in competitive conditions. The transaction was examined under the simplified merger review procedure. More information is available on the Commission's [competition](#) website, in the public [case register](#) under the case number [M.8600](#). (For more information: Lucía Caudet – Tel.: +32 229 56182; Maria Sarantopoulou – Tel.: +32 229 13740)

ANNOUNCEMENTS

Vice-President Ansip, Commissioners Thyssen and Moedas participate in the G7 ministerial meetings in Turin, Italy

Several Commissioners participate in the [G7 innovation week](#) dedicated to Industry and ICT, Science and Labour taking place in Turin, Italy ([programme](#)). Tonight and tomorrow Vice-President Andrus **Ansip** will take part in the ministerial meetings dedicated to industry and ICT, which will focus on the competitiveness of SMEs in the next production revolution; the free flow of information, digital infrastructure, standards and artificial intelligence; and cybersecurity and intellectual property rights. This will be the occasion for the Vice-President to present the recent proposals of the Commission on the free flow of non-personal data ([press release](#)) and cybersecurity ([press release](#)). A press conference will take place on Tuesday at 12:30 CET. In the margins of the event, the Vice-President will meet Canadian Minister of Innovation, Science and Economic Development Navdeep Bains. He will also meet Japan's State Minister of Internal Affairs and Communications Shinsuke Okuno and Vice-Minister of Economy, Trade and Industry Daisaku Hiraki. Commissioner Carlos **Moedas** will travel to Turin on

Wednesday 27 September and participates in the G7 Science Ministerial Meeting until Thursday 28 September. The objective of the thematic discussion he will attend is to analyse how researchers could better contribute to the economic growth. A press conference will take place on Thursday at 17.30 CET. Commissioner Marianne **Thyssen** will represent the EU in the meeting of the [G7 labour and employment ministers](#) on 29 and 30 September. More info on her visit will be published later in the week. (*For more information: Nathalie Vandystadt – Tel. +32 229 67083; Lucia Caudet – Tel.: + 32 229 56182; Christian Wigand– Tel.: +32 229 62253; Inga Höglund – Tel.: +32 229 50698; Maud Noyon – Tel.: +32 229 80379*)

Vice-President Katainen and Commissioners Moedas and Navracsics at the “EU for facts: evidence for policy in a post-fact world” conference

[On 26 September](#) the Commission’s science and knowledge service, the Joint Research Centre (JRC) is organising its annual conference on “EU for facts: evidence for policy in a post-fact world”. Tibor **Navracsics**, Commissioner for Education, Culture, Youth and Sport, responsible for the JRC, said ahead of the conference: *“Just like Gutenberg’s printing press, social media has enabled a paradigm shift in communication, wresting control from traditional information ‘gatekeepers’. In policymaking, values and emotions have always had an important place alongside evidence and facts, but the lines have become increasingly blurred. The JRC is working with scientists, politicians, the media and citizens to develop new thinking and new narratives, finding a better balance between facts and values in the political discourse.”* Vice-President Jyrki **Katainen**, responsible for Jobs, Growth, Investment and Competitiveness, will deliver a key-note speech and Carlos **Moedas**, Commissioner for Research, Science and Innovation, will give opening remarks in a session dedicated to the question of trust in science. Other speakers will include Pascal Lamy, former Director-General of the World Trade Organisation, Sir Peter Gluckman, Chair of the International Network for Science Advice to Governments, Rush Holt, Chief Executive Officer of the American Association for the Advancement of Science (AAAS), and Professor Steven Sloman of Brown University’s Department of Cognitive, Linguistic, & Psychological Sciences. Leading experts from the fields of science, policy and media will discuss, among others, issues of trust in science, and the need to re-design policymaking using behavioral and decision science. The conference is the highlight of [JRC’s](#) 60th Anniversary celebrations. The conference will be [webstreamed](#). More information can be found [here](#). (*For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Joseph Waldstein – Tel.: +32 229 56184; Julia-Henriette Bräuer – Tel.: +32 229 80707*)

European Researchers’ Night 2017 going to 12th round this Friday

The 12th edition of [European Researchers’ Night](#) takes place this week on Friday giving people across Europe the chance to discover science in a fun way in more than 340 cities in the EU and neighbouring countries. All the events are supported by the European Commission as part of the [Marie Skłodowska-Curie Actions](#). A special event called *“[Science is Wonder-ful!](#)”* is being organised at the Parliamentarium in Brussels on 26 and 27 September. Visitors will have the possibility to take part in experiments by Marie Skłodowska-Curie researchers ranging from neuroscience to geology and

psychology to multilingualism. The event will already begin this evening with a science contest showcasing the most promising scientific projects – the [Falling Walls Lab-Marie Skłodowska-Curie Actions](#) – at the House of European History. During the Brussels event (26 September), Tibor **Navracsics**, Commissioner for Education, Culture, Youth and Sport, will take part in a special ceremony to mark the funding of the [100 000th MSCA fellow](#), featuring 30 exemplary researchers and their projects. Ahead of the award ceremony, Commissioner **Navracsics** said: *“I am proud that the EU’s Marie Skłodowska-Curie Actions have funded more than 100,000 fellows so far. This is a great achievement for our programme which trains and supports the most promising researchers. As passionate scientists, every single one of them works towards a better future for us all. For a first-hand experience of research and science, come to the European Researchers’ Night events, one of the biggest science events in Europe.”* The Marie Skłodowska-Curie Actions, named after the double Nobel Prize-winning Polish-French scientist famed for her work on radioactivity, support excellent researchers at all stages of their careers, irrespective of nationality. More information can be found in this [factsheet](#). (For more information: Nathalie Vandystadt – Tel. +32 229 67083; Joseph Waldstein – Tel. +32 229 56184; Julia-Henriette Bräuer Tel. +32 229 67083)

Commissioner Moedas meets Prime Minister Tsipras in Athens today

Carlos **Moedas**, European Commissioner for Research, Science and Innovation, will meet Prime Minister Alexis Tsipras today in Athens. They will encounter in the Prime Minister residence, Maximos Mansion, from 15.30 (GMT+3, 16.30 CET), and discuss the importance of science and innovation, and the role of EU funding, in particular the programme Horizon 2020, in the economic recovery of the country. The Commissioner has participated this morning in the Conference on the [Partnership for Research and Innovation in the Mediterranean area](#) (PRIMA) and gave a keynote speech on the PRIMA initiative. He then met with the Alternate Minister for Research and Innovation Mr. Costas Fotakis with whom he discussed research infrastructures among other topics. Commissioner Moedas will have a discussion with Greek [ERC](#) Grantees in the early afternoon. (For more information: Lucia Caudet – Tel.: + 32 229 56182; Mirna Talko – Tel.: +32 229 87278; Maud Noyon – Tel.: +32 229 80379)

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

[Vítor Constâncio: Developing models for policy analysis in central banks](#)

Opening speech by Vítor Constâncio, Vice-President

of the ECB, at the Annual Research Conference, Frankfurt am Main, 25-26 September 2017

I am pleased to welcome you to the second Annual Research Conference of the European Central Bank. Every year this aims to be our flagship research event, bringing together academics and central bank researchers working at the cutting edge of economics.

We value research because it contributes to shape the intellectual framework that we use to understand economic developments and to take policy decisions. We are especially keen to keep abreast of new developments in the research frontier because they are on top of the new challenges to understand the economy's behaviour which is vital for devising appropriate policies. In the words of Christiano, the Great Recession was a macroeconomics earthquake ^[1] to which the field is still adjusting. Christiano highlights mainly three aspects: the need to recuperate the Keynesian view that demand shocks and the paradox-of-thrift can be important for economic performance, the notion that economy is not quickly self-correcting and requires public policies intervention and, finally, that the financial sector can endogenously generate imbalances with significant consequences for the real economy. With hindsight, it is surprising how these points were neglected by mainstream economics for so long. Many other aspects can be usefully added to that list.

First, that stabilisation policies are crucial and that not only growth counts as significant fluctuations leave behind permanent losses. Related to this, is the the notion that demand shocks can affect the supply side via hysteresis effects in labour supply and the capital stock via investment deceleration. The distinction between short- and long-term is necessary for theorising and teaching, but often is not useful for policy analysis models.

Second, the heterogeneity of agents, particularly of consumers, is important to understand aggregate behaviour, in view of indebtedness, credit restrictions and income and wealth composition.

Third, behavioural economics has also cast doubt on the full rational expectations paradigm as a too demanding hypothesis about the cognitive powers of economic agents, especially for long horizons. In this context, the myopic assumption explored by Gabaix (2017) ^[2] is a welcomed development.

Fourth, agents' heterogeneity relates to the issue of distribution that had been neglected but which, with the use of Heterogenous Agents New Keynesian (HANK) models, helped bring to the fore as exemplified by the recent contribution of Ahn et al. (2017) at the NBER Macroeconomics Annual Conference. ^[3] It shows how significant the feedback loop is and how models with realistic household heterogeneity fit empirical consumption dynamics better.

Fifth, the assumption of a unique steady state is now challenged by the consideration of multiple equilibria, particularly some without full employment as seen in the work by Farmer and collaborators ^[4]. The idea of abandoning the notion of an aprioristic theoretical equilibria in favour of

the pure interaction of heterogeneous agents with behaviour rules in ABMs (Agent Based Models) is more controversial.

A final point refers to the question whether conventional monetary policy is as powerful as portrayed in mainstream DSGE models via Euler equations. The protracted recovery seems to give ground to the old view of monetary policy effectiveness being asymmetric and weaker in recessions. There is justification for rethinking a more active role for fiscal policy, following the recent papers by Auerbach and Gorodnichenko (2017)^[5]. A reconsideration of the effectiveness of both macro policies has become even more necessary in view of the two major problems that central banks are now confronted with: first, the lingering low inflation associated with flatter Phillips curves that impairs the policy transmission and, second, the need for policy instruments to deal with the next recession, even if a mild one.

The various points I just listed are some of the relevant aspects of the on-going revision of macroeconomics and justify the point recently made by Blanchard that we need different types of models to understand, forecast and analyse the economy and the policies necessary to address its shortcomings. In that spirit, I will concentrate my remaining remarks on some on-going developments in the specification of macroeconomic models at the ECB.

Desirable properties of policy models

Macroeconomic models can be used for a variety of purposes in central banks. They are helpful to articulate relationships between certain variables of interest in a systematic fashion, while ensuring that resource constraints are respected. They provide input to the complex process of macroeconomic forecasting. And they can be helpful to conduct scenario analyses and study policy counterfactuals.

To perform these tasks effectively, a model should satisfy two simple criteria. First, since many policy questions are inherently quantitative in nature, a useful model must fit the data reasonably well and should be able to produce effective economic forecasts. Model-based counterfactual analyses will only serve as a credible benchmark for policy discussion, if the results are quantitatively plausible. In practice, this criterion has two implications. On the one hand, the model should incorporate realistic elasticities. For example, the dynamic effects of changes in monetary policy interest rates should be consistent with available reduced-form evidence. In the euro area, the model should provide a reasonably good account of the inflationary impact of national fiscal expansions, or of developments in national wage negotiations. On the other hand, the model should provide a credible narrative for observed economic developments.

The second criterion is really an implication of the first. Partly due to new research findings, partly as a result of puzzling economic developments, we constantly update our beliefs on the key economic mechanisms that are necessary to fit the data. The model should be reasonably flexible to be able to adapt to a changing economic and policy environment and to speak to current policy questions. The financial crisis is a case in point. The

macroeconomic models maintained by central banks in the early 2000s were not equipped to speak to all the questions arising in the aftermath of the crisis without further adjustments. From today's standpoint, these adjustments are simply inescapable. We would like the model to provide a reasonable account of the dynamic effects of non-standard monetary policy measures. With policy rates at the effective lower bound, we really need the model to provide realistic implications on the impact of forward guidance. For me as a policymaker, it is of key importance that our models can be adapted fast enough to address newly emerging questions in a timely manner. Of course, in order to reap the benefits of a flexible modelling framework, it is equally important to have expert staff using and enhancing the models in a practical and innovative manner.

The new ECB multi-country model: ECB-MC

These considerations played an important role at the ECB, when we were just recently faced with the decision of enhancing the multi-country (MC) model of the euro area. Which paradigm should we adopt?

One option was to remain within the DSGE framework. For over 10 years, DSGE models have been the key tool used for policy analysis exercises in many central banks. This has also been the case at the ECB, where the initial development of estimated DSGE models has taken place.^[6] DSGE models are typically estimated and thus consistent with the data. They often reproduce the dynamic effects of changes in monetary policy interest rates that are observed in identified Variable Autoregression Models (VARs.) This is also the case for the DSGE model developed in the Directorate General Research, the New Area-Wide Model, is regularly used for counterfactual policy analysis.^[7]

At the same time, a good fit of the data is to some extent accomplished by DSGE models through persistent shock processes, which questions the empirical validity of the model's intrinsic propagation mechanisms. More importantly, DSGE models do not always provide a plausible story for observed economic developments. For example, so-called "technology shocks" tend to play an overwhelmingly important role in accounting for the evolution of GDP, even when external data do not show any evidence of technological innovations. Moreover, DSGE models can only slowly be adapted to a new policy environment. The requirement of full internal consistency makes the incorporation of new features—be it a more granular financial sector, household heterogeneity or stronger nonlinearities—often very demanding. Enhancements come with long gestation periods, sometimes limiting the ability of DSGE models to speak to newly emerging policy questions, in a timely manner.

In designing the new ECB-MC we have therefore started from the premise that, in the words of Olivier Blanchard, "policy models" cannot be expected to have the same tight structure as "theory models".^[8] We have decided to adopt a semi-structural approach inspired by two guidelines: 1) include financial frictions or financial mechanisms that could allow monetary policy shocks to be transmitted via channels that were absent before the crisis; 2) adopt a more flexible and empirically-driven approach.

The emphasis is on equation-by-equation fit, while the cross-equation constraints are mostly ignored because they do not impinge on the model's ability to provide sound quantitative predictions. When introducing financial frictions, we have relied on a reduced form representation that is consistent with different theoretical micro-foundations. This more flexible, semi-structural approach allows us to model a wide range of banking and financial variables, going from bank lending spreads to term premia, without taking a stance on the exact theoretical mechanism linking them to the macroeconomy.

At its core, the new ECB-MC model is designed along the lines of the Federal Reserve's FRB/US model.^[9] The behavioural decision rules of private agents are based on optimisation and in the long run the model boils down to a neoclassical growth model. In the short run, however, it is assumed that agents face adjustment costs which imply staggered adjustment of the actual to the desired levels.

Challenges ahead

I believe the design of the ECB- MC model will increase the robustness of our model-based policy analyses and strengthen our capability to address newly emerging policy questions in a timely manner. The model development, which has been led by the Directorate General Research, is a joint effort of economists from a wide-range of policy areas inside the ECB, colleagues from national central banks and academic consultants. I am confident it will soon be part of the ECB toolkit. However, it is easy to forecast that further refinements will prove to be necessary in the future, for the model to continue being a valuable policy tool. I specifically see four areas where significant progress has already been made, but further improvements are likely to be necessary.

The first area is related to the modelling of aggregate consumption. I share the concern of Muellbauer that the standard DSGE framework imposes unrealistic micro-foundations for the behaviour of households as embodied in the 'rational expectations permanent income' model of consumption.^[10] In typical representative-agent models, consumption behaviour is captured by an Euler equation, an inter-temporal optimality condition that links today's level of consumption to expected consumption in the next period and further into the future. In its linearised form, it does neither envisage that consumers face idiosyncratic (household-specific) and uninsurable income uncertainty, nor that uncertainty interacts with credit or liquidity constraints. This is in stark contrast to recent research that emphasises the importance of precautionary saving, liquidity constraints, leverage and of heterogeneity, including heterogeneity in marginal propensities to consume.^[11] Compared to simple representative-agent models, the ECB-MC clearly marks an improvement. The consumption function is explicitly affected by agents' wealth holdings.^[12] Agents have shorter average horizons than presumed under the text-book permanent income hypothesis and the model further allows for the presence of agents that do not optimize but rather exhibit 'hand-to-mouth' behaviour. Last, but not least, risk aversion and income uncertainty also play a role for consumption behaviour. This setup, for example, allows quantifying how larger income uncertainty reduces the

power of forward guidance. All in all, I think that we are moving in the right direction. Nevertheless, the modelling of aggregate consumption is an area in which research is currently developing fast and we should be ready to learn from new findings.

The second area of improvement concerns the modelling of expectations. As Sargent (1993) emphasizes, rational expectations can be a meaningful characterisation of the long-run equilibrium, but the transition to a new steady state might display non-rational behaviour.^[13] An increasing body of research aims to explore the implications of alternative types of departures from rational expectations for business cycle dynamics in general, and the transmission of monetary policy in particular, as in the papers by Garcia-Schmidt and Woodford (2015), Gabaix (2017) or Fahri and Werning.^[14] Once again, the ECB-MC goes in the right direction. The model can be simulated under two expectation setups: (i) in a model consistent manner, and (ii) under the assumption of bounded rationality where agents form expectations with a small-scale VAR model. Other expectation formation mechanisms, such as learning or the use of market expectations, are also easily implementable. As was shown by Blanchard and co-authors in a recent study on the macroeconomic effects of changes in the expectations of long-run productivity growth, different assumptions on the expectation formation mechanism can lead to considerably different outcomes.^[15] Assessing the most realistic way of treating expectations in policy models remains a crucial area for further work.

The third area of improvement has to do with the nexus between inflation, wages and the real economy. When modelled through the expectations-augmented Phillips curve, the nexus seems to have become weaker after the financial crisis.^[16] Commentators have repeatedly talked about a “missing disinflation” at the trough of the Great Recession, and about “missing inflation” in more recent years.^[17] Recent studies have come up with alternative explanations for these phenomena. For instance, the “missing disinflation” has been argued to be the consequence of either the presence of well-anchored inflation expectations^[18], increased downward wage rigidities in recessions^[19], or a fall in total factor productivity and increased costs of working capital^[20]. Understanding the underlying sources of this apparent structural change will be important for monetary policy. The semi-reduced-form nature of the ECB-MC makes it ill-equipped to address this deep question, but studying structural changes is challenging for all current models built to study cyclical developments.

The fourth and final area where further improvements are necessary is macro-financial linkages. I have already mentioned that the ECB-MC incorporates such linkages. Nevertheless, the exact way in which they affect the monetary policy transmission mechanism remains imperfectly understood, even if the empirical literature is making important advances.^[21] These linkages are also relevant for financial stability and may evolve in response to the recent reforms in the regulatory environment. This is why at the ECB we are also making parallel progress on this front within the DSGE paradigm, through the 3D model. The 3D model has been developed under the macroprudential research (MaRS) network, and can be used to assess the macroeconomic benefits and

costs of macroprudential policies. “3D” alludes to the fact that, contrary to previous models, it captures the distinct benefits of capital requirements through reductions in default risk in the economy, not only for banks but also for borrowers, i.e. non-financial firms and households.^[22]

Concluding remarks

To conclude, building models for policy analysis is associated with trade-offs. This is an important reason for central banks to not rely on a single model and a single modelling paradigm, but to make use of a suite of models based on different paradigms. I could not agree more with Blanchard who recently expressed his view that also other types of general equilibrium models beyond DSGEs are useful policy tools.^[23] I am pleased this view has been getting more traction lately, as alternative types of models will continue to be part of central banks’ toolbox. Development of those models can greatly benefit from insights from academic research, so I am very much looking forward to the contributions to be presented at this conference.

Thank you for your attention.

Statement by Michel Barnier

In her speech in Florence, Prime Minister Theresa May has expressed a constructive spirit which is also the spirit of the European Union during this unique negotiation.

The speech shows a willingness to move forward, as time is of the essence. We need to reach an agreement by autumn 2018 on the conditions of the United Kingdom’s orderly withdrawal from the European Union. The UK will become a third country on 30 March 2019.

Our priority is to protect the rights of citizens. EU27 citizens in the United Kingdom must have the same rights as British citizens today in the European Union. These rights must be implemented effectively and safeguarded in the same way in the United Kingdom as in the European Union, as recalled by the European Council and European Parliament. Prime Minister May’s statements are a step forward but they must now be translated into a precise negotiating position of the UK government.

With regard to Ireland, the United Kingdom is the co-guarantor of the Good Friday Agreement. Today’s speech does not clarify how the UK intends to honour its special responsibility for the consequences of its withdrawal for Ireland. Our objective is to preserve the Good Friday Agreement in all its dimensions, as well as the integrity of the Single Market and the Customs Union.

The United Kingdom recognises that no Member State will have to pay more or receive less because of Brexit. We stand ready to discuss the concrete implications of this pledge. We shall assess, on the basis of the commitments taken by the 28 Member States, whether this assurance covers all commitments made by the United Kingdom as a Member State of the European Union.

Today, for the first time, the United Kingdom government has requested to continue to benefit from access to the Single Market, on current terms, and to continue to benefit from existing cooperation in security. This is for a limited period of up to two years, beyond its withdrawal date, and therefore beyond its departure from the EU institutions.

If the European Union so wishes, this new request could be taken into account. It should be examined in light of the European Council guidelines of 29 April 2017: *“Should a time-limited prolongation of Union acquis be considered, this would require existing Union regulatory, budgetary, supervisory, judiciary and enforcement instruments and structures to apply.”*

The sooner we reach an agreement on the principles of the orderly withdrawal in the different areas – and on the conditions of a possible transition period requested by the United Kingdom – the sooner we will be ready to engage in a constructive discussion on our future relationship.

The EU shares the goal of establishing an ambitious partnership for the future. The fact that the government of the United Kingdom recognises that leaving the European Union means that it cannot keep all the benefits of membership with fewer obligations than the other Member States is welcome. In any case, the future relationship will need to be based on a balance of rights and obligations. It will need to respect the integrity of the Union’s legal order and the autonomy of its decision-making.

The EU will continue to insist on sufficient progress in the key areas of the orderly withdrawal of the United Kingdom before opening discussions on the future relationship. Agreeing on the essential principles in these areas will create the trust that is needed for us to build a future relationship together.

David Davis and I will meet in Brussels next Monday to begin the fourth round of the negotiations. As always, we are preparing the upcoming round with the 27 Member States and the European Parliament. On Monday I will have a discussion with the European Parliament in its Brexit Steering Group, as well as with all Member States in the General Affairs Council.

We look forward to the United Kingdom’s negotiators explaining the concrete implications of Prime Minister Theresa May’s speech. Our ambition is to find a rapid agreement on the conditions of the United Kingdom’s orderly withdrawal, as well as on a possible transition period.

EU – US Agreement on insurance and reinsurance

1. THE AGREEMENT

Why is the EU signing this Agreement?

The Agreement will principally benefit EU reinsurers active in the USA by progressively removing collateral requirements. For several decades, EU reinsurers have had to post collateral when signing reinsurance contracts in the US, while US reinsurers are not subject to such requirements. The volume of collateral posted by EU reinsurers amounts to USD 40 billion today, which could be invested in more productive parts of the economy. This represents opportunity costs of USD 400 million a year. The Agreement will also benefit EU insurance and reinsurance groups active in the US by clarifying responsibilities for worldwide group supervision.

How will the EU ensure the proper implementation of the Agreement?

The EU and US sides will regularly meet within a Joint Committee to discuss the implementation of the Agreement. The Agreement foresees a mechanism of consultation in case of differences. Both Parties will be encouraged to implement the Agreement so that their industry to benefit from preferential supervisory practices.

When will the Agreement be applied?

Certain parts of the Agreement, such as on group supervision and the establishment of a Joint Committee, will be 'provisionally applied' swiftly following the signature. Following the consent of the European Parliament and Council, the Agreement will fully apply for both sides 60 months after signature.

2. REINSURANCE

When will the US side eliminate the collateral requirements?

Through the Agreement, the US committed to encourage the US states to eliminate collateral requirements as from signature and provisional application of the Agreement. Collateral requirements shall be removed within 60 months after signature of the Agreement.

What are the conditions for reinsurers to benefit from the Agreement?

Reinsurers have to fulfil a number of financial strength and business conduct conditions, specifically listed in the Agreement.

Will the Agreement benefit all reinsurance contracts?

The Agreement will benefit reinsurance contracts which are entered into,

amended or renewed after the date of effect of collateral elimination in the US state concerned. Reinsurance contracts are typically renewed on an annual basis, so after one year all reinsurance contracts should be covered.

Do EU reinsurers have to commit to a local presence in the US to benefit from the collateral removal?

No. The Agreement foresees no such obligation in exchange of the removal of collateral. On the contrary, the Agreement ensures the removal of any existing local presence requirement as well as a commitment not to introduce any such requirement.

3. GROUP SUPERVISION

What are the benefits of the Agreement for EU insurance and reinsurance groups?

EU supervisors will be fully in charge of worldwide group supervision of EU groups active in the USA. This means for instance that EU groups will have to submit only one group-level Own Risk and Solvency Assessment (ORSA), to their group supervisor in the EU. The US supervisors will use it and not require a local ORSA from this group.

What are the main benefits of the Agreement for US insurers and reinsurers?

US groups active in the EU will not be subject to Solvency II requirements at the level of the ultimate parent undertaking for their non-European activities. In addition, there will be no more requirements for US reinsurers active in the EU to establish a local presence in the EU.

4. EXCHANGE OF INFORMATION BETWEEN SUPERVISORS

How will EU consumers, insurers and reinsurers benefit from the increased exchange of information between EU and US supervisors under the Agreement?

Increased information flows between EU and US supervisors will reduce the need to collect information twice from EU insurers or reinsurers active in the USA, while respecting adequate confidentiality rules. EU consumers will also be better protected as supervisors will have better access to supervisory information on US groups active in the EU.

The Agreement contains model provisions for possible future memorandum of understanding on exchange of information between supervisory authorities.