

Mr Herman Van Rompuy,
President
European Council
175 rue de la Loi
B - 1049 Brussels
BELGIUM

SECRETARIAT DU CONSEIL
DE L'UNION EUROPÉENNE

S6E12/011071

REÇU: 15 OKT 2012

DEST. PRINC:

M. VAN DAELE

DEST. COP:

15th October 2012

Dear Sir,

Towards a Genuine Economic and Monetary Union

After the award of the 2012 Nobel Peace Prize to the European Union, the decisions that the forthcoming European Council will take will be, more than ever, under the spotlight.

The establishment of the Euro in particular has delivered unprecedented price stability, boosted trade, and in turn increased competition, productivity, growth and employment. Furthermore, no plan for growth will have real force until the present uncertainties around the euro are resolved. Safeguarding the euro is essential for Europe's long-term growth. European leaders must therefore commit to concrete steps which can safeguard the Euro and enhance growth.

Many member states have made strong progress in taking forward structural reforms which improve competitiveness. The EU has also taken important steps forward in strengthening economic governance to underpin the single currency, most notably through agreements on the 'six pack' and the European Semester. As a result, EU governments are making progress on essential fiscal consolidation. Total government budgets deficits in the EU fell from 6.9% of EU GDP in 2009 to an expected 3.8% in 2012.

But Euro Area Heads of State and Government urgently need to commit to further concrete steps towards economic and political integration that, although long-term in nature, can have an immediate impact in increasing confidence in the European economy, and the euro area in particular. This must be accompanied by full commitment to balanced budgets and competitiveness enhancing reforms in the short term.

Euro Area challenges require Euro Area solutions that also include opt-in options for non-euro Member States. At the same time, the key achievement of the single market needs to be deepened, and access safeguarded for businesses in all 27 member states, particularly in relation to financial services.

More detailed business views on what needs to be done under each of the 4 pillars in your June report are set out below:

- **Pillar 1: An Integrated Financial Framework**

European business fully supports greater integration of financial markets within Europe. The ECB needs to continue to assist monetary and financial stability by providing liquidity to the banking sector in its role as lender of last resort. But we urgently need to break the negative feedback loop between the financing of banks and government, which has reduced confidence in the financial system, increased segmentation of financial services across national borders, and raised financing costs for many well run businesses across Europe.

There are clear benefits to having a **Single Supervisory Mechanism (SSM)** covering all credit institutions established in participating Member States. In order to avoid unnecessary centralisation of powers and duplication of structures, the ECB should be assisted by existing national regulators, while retaining reserve powers to take over day-to-day responsibility in the event of concern regarding the national regulator. As the EU is one market, proposals need to both allow non-euro countries to opt in on a voluntary basis, and maintain the broader principles of the single market for financial services.

Given the need to quickly put in place such a mechanism to allow banks to be recapitalised directly through the ESM, we believe granting responsibility to the ECB offers an effective solution which avoids treaty change. But more generally, and in full respect of the 29th June Euro Area summit statement, a clear agreement from Member States regarding the SSM can make the fullest contribution to building business confidence if it viewed as providing a **realistic time-frame** to resolve the many complex issues that such a transition will entail.

The Euro Area, in particular, also needs a **single bank resolution framework** which can both increase confidence and be more effective in ensuring a healthy structure to the financial system. Such a bank resolution framework should be defined in a way which avoids moral hazard and incentivises banks to adopt responsible risk profiles.

Recognising the importance of **credibly guaranteed deposits**, which take into account the issue of moral hazard, the European business community welcomes the progress made in the negotiation of the current proposal on deposit guarantee in EU 27. In the longer term, careful co-ordination of resources between euro area members may further enhance the credibility of such schemes.

- **Pillar 2: An Integrated Budgetary Framework**

Greater fiscal integration in the Euro Area should be a long-term aspiration. We therefore support effective mechanisms to prevent and correct unsustainable fiscal developments in the Member States, including increasing the scope for national budget and debt levels to be agreed in common, with a central euro authority having the power to enforce changes to budgetary envelopes if they are in violation of fiscal rules.

Conditional upon such a transfer of budgetary authority from national to the European level, as well as euro area economies showing greater convergence, and ensuring their public finance positions are in genuine adherence with the Maastricht criteria, adoption of a joint European debt instrument, such a **Eurobonds**, may be a long-term aspiration.

- **Pillar 3: An Integrated Economic Policy Framework**

The EU must support Member States in developing national policies that have a greater focus on strong and sustainable economic growth and employment. Further measures are still required to enhance the EU's role in ensuring that Member States develop and implement ambitious structural reform plans, especially as regards making the obligations under the EuroPlusPact and the Council's country-specific recommendations more binding and enforceable

We therefore welcome efforts to strengthen the European semester, with the Commission providing ambitious country-specific recommendations and the Economic and Financial Affairs Council continuing to play a leading role in finalising them and ensuring their implementation.

Full completion of the single market must take place across the whole EU. As well as boosting EU growth, deepening the single market would also strengthen the Euro Area, by both helping ensure convergence between Euro Area economies and improving the capacity for adjustment between Member economies in the event of economic shocks impacting on Euro Area economies differently. An important part of completion is to ensure that the rules, we already have, are implemented and enforced uniformly across borders.

- **Pillar 4: Strengthening Democratic Legitimacy and Accountability**

Finally, as your report rightly notes, the changes to economic governance proposed above will have greatest credibility if they are accompanied by **strong mechanisms for legitimate and accountable joint decision-making**. We believe that social partners should support the development of new governance structures for the Euro Area and facilitate structural labour market reforms which can help return growth and prosperity to our continent. The business community is ready to fully play its role in doing so.

Yours sincerely,



Jürgen R. Thumann