Letter to President van Rompuy

The Euro is the basis of our economic success and symbol for the political unification of our continent. It stands for the will of Europe to consolidate its internal development and to jointly meet the challenges of our time. Germany and France, consider it their historic mission and stand united to protect and strengthen the economic and monetary union and thus the stability of the single currency.

In the last months, the Heads of State and Government of the euro area have taken all the necessary measures in order to preserve the stability of the economic and monetary union. They have also made clear, that all Member States of the euro area have a shared responsibility for the euro area notably through their budgetary and economic policies.

Since then, the European Union and the Member States of the euro area have introduced decisive reforms to stabilize the economic and monetary union.

The reformed Stability and Growth Pact, the new excessive imbalances procedure and the Euro Plus Pact will reinforce the economic and fiscal coordination and surveillance in the euro area and ensure that any deviation from the objectives set by these instruments are recognized and adressed at an early stage. This policy of prevention will be key to the medium- and long-term stability of the euro area.

At the same time, by establishing the European Financial Stability Facility (EFSF) and, from mid-2013, the European Stability Mechanism (ESM), we have created the instruments to enable targeted intervention if indispensable to safeguard the stability of the euro area as a whole – always subject to adequate conditionality. Member States which benefit from the EFSF undertake considerable efforts to takle the causes of the crisis – principally excessive public debt and a lack of competitiveness – effectively.

All the Member States of the euro area have committed themselves to swiftly reducing their deficits, achieving balanced budgets in the medium term and implementing the structural reforms required to enhance the competitiveness of their economies on a sustainable basis.

France and Germany are committed to implement all decisions of the Heads of State and Government meeting of July 21st fully and in due time. They stress the importance to obtain parliamentary approval in their two countries by the end of September for all the relevant decisions. They call on all members of the euro area to take the appropriate steps so that the new EFSF be fully operational at the end of September. France and Germany call for the rapid finalization of the legislative package on the strengthening of the Stability and Growth Pact and the new macro economic surveillance.

In the view to implementing the paragraph 16 of the declaration of Heads of State and Governement of the euro area of July 21st, France and Germany propose to strenghten further the governance of the euro area, in line with existing treaties.

1/ Strenghtening the governance of the Euro area

All the decisions taken in the last year are aimed at enhancing stability and fostering growth in all Members States. In order to support this process, the euro area needs to strenghten and streamline its institutional framework to reinforce the efficiency of its decision-making process and to promote the coherence of its institutions and procedures.

This framework should rely on the following proposals :

- Regular meetings of the euro area Heads of State and Government: these meetings will be convened twice a year and when necessary in extraordinary session to act as the cornerstone of the enhanced economic governance of the euro area. They would in particular check the proper implementation of the Stability and Growth Pact by euro Member States, discuss the problems facing individual Member States of the euro area and take the requisite fundamental decisions on averting crisis. These summits will also assess the evolution of competitiveness in the euro area and define the main orientations of the economic policy in the euro area to promote sustainable growth, foster competitiveness and prevent the build up of imbalances.

- The Heads of State and Government of the euro area should elect a chairman as a rule for a 2 year and half term. We expressed our wish that you could take on this job.

- The eurogroup of finance ministers should be reinforced.

- The EFSF/ESM missions have been extended by the decisions taken on July 21st. Its effectiveness will be improved and its flexibility increased subject to appropriate conditionalities. To fulfill its new role, the ESM should be equiped with new analytical capacities in particular as regards debt and capital markets analysis to complement the analysis and recommendations provided by European Commission, the European Central Bank and the International Monetary Fund.

2/ Enhanced surveillance and integration of budgetary and economic policy

The economic and monetary union needs to be based on an even closer coordination of national budgetary and economic policies.

It should be further enhanced through the following proposals :

- Building on their commitments under the Euro Plus Pact, **all Member States of the euro area will incorporate a balanced budget fiscal rule into their national legislation by summer 2012**. As a rule, the balanced budget fiscal rule is made law as part of Member States' constitutions or by legislation of an equivalent level in order to ensure the rule's stability and superiority over annual budgets. The fiscal rule should implement the objectives of the Stability and Growth Pact and ensure that every Member State of the euro area achieves a balanced budget as soon as possible. Therefore, it would ensure a sustained reduction of the debt ratios in the case they exceed the reference value (60% of GDP). In line with the revised Stability and Growth Pact, by end-2011, all Member States of the euro area whose debt level exceeds the reference value must present an adjustment path for reducing their debt below the reference value and expose how to address the impact of ageing population on the long term debt sustainability.

- **All Member States of the euro area should confirm without delay their resolve to swiftly implement the European recommendations for fiscal consolidation and structural reforms**, especially as regards labour-market, competition in services and pensions policy, and adapt appropriately their draft budget.

- We will campaign for a commitment of governments and parliaments of all Member States of the euro area to adapt their draft budgets in case of recommendations made in the European Semester.

- In line with the Euro Plus Pact, **euro area Member's States should take all the necessary measures to improve competitiveness, foster employment, ensure stability of the euro area as a whole and deepen economic integration.** In particular, further progress should be made on tax policy coordination to support fiscal consolidation and economic growth. Member states should commit to finalize the negotiation on the Commission's proposal on "a common consolidated corporate tax base" before end 2012. Euro area member states should be ready to consider enhanced cooperation for further progress on tax coordination. Euro area member states should enhance their cooperation to avoid harmful tax practices and fight against fraud and tax evasion.

- **Structural and cohesion funds should be used to support essential reforms to enhance economic growth and competitiveness in the euro area.** Macro-economic conditionality of the Cohesion fund should be extended to the structural funds. They should be targeted at improving competitiveness and reduction of imbalances in the Member States receiving recommendations in the excessive imbalance procedure. In programme countries, the European Commission should automatically check to ensure that structural and cohesion funds provide the optimum support for the macroeconomic adjustment programme and be involved in the selection and implementation of projects. Within the European Commission, the Commissioner for Economic and Financial Affairs, should play a decisive role in this process. Funds not used by programme countries could be combined in a fund for growth and competitiveness administrated on the European level by the Commission. In the future, payments from structural and cohesion funds should be suspended in euro area countries not complying with recommendations under the excessive deficit procedure. These changes should be implemented in the new structural and cohesion funds regulations to be proposed for the next multiannual financial framework.

The aforementioned proposals should be implemented in such a way as to serve the cohesion of the European Union as a whole. The European Parliament, the European Commission and the national parliaments should be associated to this process in their respective capacities. Under the provisions of the current treaties, EU legislation including legislation pursuant to Art. 136 TFEU and in the framework of enhanced cooperation should be considered.

Finally, we wish to inform you that we have decided to reinforce the economic and financial convergence between our two countries.

We have taken the three following decisions:

1. We have asked our Finance Ministers to work on a joint proposal on a Financial Transaction Tax by the end of September, in order to contribute to the work of the European Commission ;

2. We have decided to convene a meeting at the beginning of each European semester in order to exchange on our economic and fiscal policy and to define together the macro-economic assumptions underpinning our budgets. The first meeting will be held in January 2012 ;

3. For the celebration of the 50^{th} anniversary of the Elysée Treaty, we have asked our Finance and Economic ministers to prepare joint proposals with a view to an enhanced convergence and competitiveness of our economies.

   We have specifically asked them to prepare a proposal to create a common corporate tax between our two countries, including harmonized tax base and rates, which would be implemented as of 2013.