

Joint Letter by Germany and France to the President of the European Council

Mr President,

To overcome the current crisis, all necessary measures to stabilize the euro area as a whole will have to be taken. We are confident that we will succeed.

We are convinced that we need to reinforce the architecture of Economic and Monetary Union going beyond the indispensable measures which are urgently needed to cope with immediate crisis resolution. Those steps need to be taken now without further delay. We consider this as a matter of necessity, credibility and confidence in the future of Economic and Monetary Union.

The current crisis has uncovered the deficiencies in the construction of EMU mercilessly. We need to remedy those deficiencies. To build a lasting Stability and Growth Union which allows us to preserve our unique European model combining economic success and social responsibility, we have to substantially reinforce the foundations of EMU. Alongside the single currency, a strong economic pillar is indispensable, building on enhanced governance to foster fiscal discipline as well as stronger growth and enhanced competitiveness. In order to achieve these objectives, we need a renewed contract between the Euro area Member States. This conviction is the driving-force behind our proposal.

We need more binding and more ambitious rules and commitments for the Euro area Member States. They should reflect that sharing a single currency means sharing responsibility for the Euro area as a whole. They should pave the way for a new quality of cooperation and integration within the Euro area.

We propose that those new rules and commitments should be enshrined in the European Treaties. Alternatively, the Member States whose currency is the Euro will have to go ahead. In that case, we would ensure that those Member States willing and able to do so would be able to join and the European institutions would play an important role. We would also work towards bringing this new agreement into the framework of the European Union as soon as possible.

The main building blocks of the new Stability and Growth Union are:

A strengthened institutional architecture

Euro area governance needs to be substantially reinforced. We should provide for a more integrated and more efficient institutional set-up without duplicating existing European structures or institutions. This set-up should be based on:

- Regular summits – at least twice a year - of the Euro area heads of State and Government with a permanent president. These summits will provide strategic orientations on the economic and fiscal policies in the euro area. The impact of our domestic economic and fiscal policies on the euro area should be considered as a matter of common interest, while safeguarding national responsibility.
- During the crisis, the Eurosummit should meet on a monthly basis: each meeting should focus on a precise agenda regarding governance and policies to foster growth, competitiveness and fiscal stability. Member States having signed the Euro Plus Pact will be invited to participate to the discussions on issues related to it.
- A ministerial Eurogroup and a reinforced preparatory structure to prepare and implement the decisions taken by the summit and ensuring the current functioning.

This framework will be fully consistent with the EU institutional architecture. We strongly reaffirm our willingness to fully associate the European Commission. The European Parliament and national Parliaments should also be involved in an adequate way.

A comprehensive framework of prevention

It is undoubtedly in the interest of all members of the Stability and Growth Union to detect and correct departures from sound economic and fiscal policies long before they become a threat to the stability of the Euro area as a whole. Therefore, we need a comprehensive framework on prevention consisting of strengthened co-ordination, surveillance and enforcement as well as positive incentives, building on current arrangements (new macroeconomic imbalances procedure, EU 2020-Strategy, Euro Plus Pact, a greater focus of structural- and cohesion funds on competitiveness etc.) and developing them further.

This framework should comprise in particular:

- the adoption by each euro area member state of rules on a balanced budget translating the objectives and requirements of the Stability and Growth Pact into national legislation at constitutional or equivalent level. A new legal provision should set minimum requirements for the national rules on balanced budgets. The European Court of Justice, on request of the European Commission or a Euro area Member State, should have the possibility to verify the transposition in the national legislation.
- Commitment of national Parliaments to take into account recommendations adopted at the European level on the conduct of economic and budgetary policies.

We need to foster growth through greater competitiveness as well as greater convergence of economic policies at least amongst Euro Area Member States. To these aims, building on Article 136 and/or on enhanced cooperation, a new common legal framework, fully consistent with the internal market, should be established to allowing for faster progress in specific areas such as :

- Financial regulation;
- Labor markets;
- Convergence and harmonisation of corporate tax base and creation of a financial transaction tax;
- Growth supporting policies and more efficient use of European funds in the euro area.

A reinforced procedure to enforce sound fiscal policies

To complement the preventive arm of the Stability and Growth Pact and in particular the goal to achieve a structurally balanced budget and ex-ante examination of draft budgets, a new procedure should be established to correct breaches of the 3 % deficit of GDP ceiling.

As soon as a Member State is recognized to be in breach with the 3 % ceiling by the European Commission, there should be automatic consequences unless the Eurogroup, acting by qualified majority, decides otherwise. Exceptional circumstances should be taken into account:

- The obligation for the Member State to conclude with the Commission and approved by the Eurogroup by reversed qualified majority on behalf of the other Member States, a „European Reform Partnership“ specifying the concerned Euro area Member States' fiscal and structural policy measures to overcome its difficulties and assisting them in those efforts.
- A sequence of interventions of increasing intensity into Euro area Member States' rights should be allowed as a focussed response to continued infringement. Steps and sanctions proposed or recommended by the Commission should be adopted by the Council unless a qualified majority of the Euro area Member States decides otherwise.

Buiding on the provisions for a numerical benchmark for debt reduction in the “six-pack” (1/20 rule), the procedure for debt reduction by Euro area Member States with a public debt of more than 60 % of GDP needs to be enshrined in the new treaty provisions.

A permanent crisis resolution mechanism

We will accelerate the setting of the permanent intergovernmental European Stability Mechanism which should be effective in 2012 to better address any future threats to the stability of the Eurozone as a whole, including through the risk of contagion for other Euro area Member States, thus assisting them in situations of emergency.

In order to maximize the efficiency of the ESM and its capacity to take decisions, specific super majority rules (85 % of signed ECB-Capital) should be implemented.

As far as the private-sector involvement is concerned, the ESM treaty should be revised to make clear that Greece required a unique and exceptional solution. We recall that all other Euro area Member States reaffirm their inflexible determination to honour fully their own individual sovereign signature. A recital in the preamble should clarify that the euro area will apply the IMF practice. As agreed, common terms of reference on CACs shall be introduced in national legislations.

On the occasion of the 50th anniversary of the Treaties of Rome we reiterated solemnly together with all Member States of the European Union our resolve to protect the achievements of European unification for the good of future generations. To this end, we committed ourselves to always renewing the political shape of Europe in keeping with the times. It is in this spirit that we submit our proposal to our European partners.

We are convinced that we need to act without delay. We need to take a decision at our next European Council meeting in order to have the new treaty provisions ready by march 2012.

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