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THE PRESIDENT

Mr Jean-Claude Juncker
Prime Minister
Rue de la Congrégation 4

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23 November 2009

Dear Prime Minister,

I am writing to you ahead of your visit to Nanjing on 28 and 29 November to highlight the importance of strengthening the dialogue with Chinese authorities on macroeconomic policies and to underline the importance of exchange rate developments in this context.

A year ago in Washington, G20 leaders concurred that global current account imbalances were a major underlying factor in the crisis and called again in Pittsburgh this year for reinforced cooperation to prevent unsustainable macroeconomic outcomes in the future.

Since the outbreak of the financial crisis last autumn, we have seen an apparent reduction in global imbalances, with the US current account deficit expected to decline this year to 2.5% of GDP (from 4.9% in 2008) and China's surplus to 7.8% (from 9.8% in 2008). The current account deficit of the euro area is expected to be broadly stable at around 0.7% of GDP.

But this might prove to be a temporary phenomenon, more related to the massive drop in world trade induced by the crisis than reflecting a more fundamental re-adjustment of the global economy. The IMF forecasts that the Chinese current account surplus and the US deficit will increase again from next year onwards – albeit to lower levels than before the crisis.

In our view, recent exchange rate developments, and in particular that of the Chinese Renminbi, are inconsistent with the objective of an orderly resolution of global imbalances. Since the G20 summit in London in early April, the euro has appreciated by almost 13% against both the Dollar and the Renminbi, and 2% on a trade-weighted basis.

The euro cannot take the burden of adjustment on its own. This not only creates a stumbling block for the recovery in Europe but could also lead to sub-optimal monetary policy decisions across our different economic blocs and fuel renewed financial and

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asset price misalignments. Some indications of that are already visible in the recent movements on financial markets and in commodity prices.

It is our strong belief that a precondition for a return to global growth and financial stability is to ensure that macroeconomic and exchange rate policies do not perpetuate past mistakes.

We expect open and frank discussions on these issues focusing on the following elements:

- Chinese authorities need to consider renewed appreciation of the Renminbi and to introduce more flexibility in their currency system. At the same time, it is vital that US authorities make real their pledge of a strong Dollar policy.

- The bases upon which economic growth has rested in the past need to be re-assessed. We fully share President Hu Jintao's and Prime Minister Wen Jiabao's demand that China's growth be steady, solid and balanced. We encourage Chinese authorities to undertake the necessary reforms to support domestic demand.

- An orderly rebalancing of the global economy also calls for US policy-makers to restore domestic savings and for European leaders to push forward far-reaching reforms to boost EU's faltering growth potential.

It is in Europe, China and US interest to share a common agenda and cooperate as closely as possible. Europe needs to play a key role in the search for effective and viable policy solutions to address macroeconomic imbalances and ensure greater financial stability.

We count on your support to bring this message forward. But as effective solutions can only be found in a more intense dialogue we look forward to new initiatives over the coming months to establish regular meetings.

The entry into force of the Lisbon Treaty and the formalisation of the Eurogroup should be an opportunity to reinforce this international dialogue and the external representation of the euro area.

Yours sincerely,

Jürgen Thumann

Jürgen R. Thumann