



Mr Herman Van Rompuy
President of the
European Council
rue de la Loi, 175
1048 Brussels

6 July 2010

Dear President Van Rompuy,

BSC Herman,

BUSINESSEUROPE is closely involved in the debate on the future architecture of the European economic governance system and the coordination of economic policies among Member States sharing the single currency.

We have outlined our position in a report sent to you in June entitled "Improving euro-area governance, securing the long term success of the euro", highlighting the following key recommendations:

- Transpose debt and deficit rules into national law and reform regional and local fiscal institutions;
- Broaden the concept of fiscal sustainability to include a range of implicit liabilities such as future demographic pressures and stress-test public finances for worse-case scenarios;
- Reinforce the surveillance of national economic policies at euro-area level and trigger earlier and synchronised discussions on fiscal and broader macroeconomic imbalances;
- Ensure that early warnings from the European Systemic Risk Board on excessive credit expansion and asset price misalignment lead to remedial actions;
- Protect the European Central Bank's independence and its overarching mandate to preserve price stability for the euro area as a whole;
- Impose obligatory deposits on Member States failing to consolidate sufficiently in good times;
- In case of repeated indiscipline, transfer these deposits into a crisis resolution fund and consider the suspension of EU budget funds;
- Work on a permanent crisis management system and a resolution scheme for debt restructuring or orderly default in last-resort situations.

We are pleased to notice that these ideas are gaining ground with the early results of the task force on economic governance you are chairing and the proposals put forward by the Commission in its 30 June communication.



We agree with the main thrust of these proposals and emphasise particularly the importance of setting up an effective monitoring and alert system based on a scoreboard of indicators.

The recent crisis has demonstrated that competitiveness and fiscal sustainability are strongly intertwined and should be more appropriately measured and monitored.

We believe that the following indicators are especially pertinent in this regard:

- Gross public debt, net lending, primary balance and interest payments by the government, public investment, public sector productivity, tax structure, overall tax burden and fiscal sustainability gap;
- Asset prices, credit developments, private indebtedness and private savings;
- Current account position, net foreign assets, trade openness and export performance;
- Wage developments in both private and public sector, unit labour cost in both tradable and non-tradable sectors, highlighting countries losing cost competitiveness vis-à-vis their main trading partners;

BUSINESSEUROPE stands ready to participate in a structured dialogue with your task force and the Commission to share views on the appropriate measurement of competitiveness and fiscal sustainability.

Once the indicators have been selected for the surveillance of fiscal and macroeconomic imbalances, an alert system should be set in place with defined thresholds.

Warnings from one or more indicators should trigger as a first step deeper analysis on the nature of the emerging imbalance at the Member-State level. It should then lead to concrete recommendations and remedial actions including through more stringent requirements in terms of budgetary objectives.

We believe that independent evaluations and automatic enforcement mechanisms are central to a more effective governance system for the euro area.

This requires a robust methodological framework but also a strong, credible and independent European Commission. Political horse trading in the Council should be prevented and sanctions decided with a certain degree of automaticity.

A stronger monitoring framework should also apply to the functioning of labour, product, services and capital markets. Here we regret a lack of ambition on the part of Commission and Council, and a rather narrow focus on the five headline targets of the EU2020 Strategy.

Identifying growth bottlenecks and structural reform priorities at Member-State level requires heightened attention.



A robust framework for doing so would significantly increase the rationale and credibility of country-specific recommendations addressed and reinforces their ultimate impact.

Macroeconomic stability and an enhanced growth potential for the EU will need to be achieved at the same time and deserve equal importance.

BUSINESSEUROPE has consistently called for a more quantitative approach to economic governance in the European context, as portrayed in our yearly Reform Barometer report. We hope to see a consensus building around this approach and look forward to further contributing to it.

The business community has high expectations on the outcome of your task force and trusts in your leadership to deliver effective results,

I would like to inform you that a similar letter is being sent to President Barroso.

Yours sincerely,

For credible growth.

Philippe de Buck