



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

Brussels, 4 March 2011

Dear President,

In view of the special meeting of euro-area Heads of State taking place on 11 March, the European business community would like to reiterate its fundamental support to the euro and the importance of ensuring its stability and credibility for the future.

Competitiveness will be at the heart of a better functioning and more cohesive monetary union. Excessive imbalances were allowed to grow unabated for more than a decade, leading to abrupt re-adjustments in difficult economic circumstances.

The euro area is still in crisis mode and should give priority to reinforcing its crisis management instruments. In December, the European Council endorsed the outline of a permanent resolution scheme - the European Stability Mechanism. This included important features such as the possibility of tailor-made emergency loans based on strict conditionality programmes and a scheme allowing for orderly debt restructuring in last-resort situations.

Translating this into more concrete proposals, **reviewing the scope and effectiveness of existing arrangements** and ensuring a smooth transition to a permanent crisis system after 2013 will be central to restoring confidence and consolidating the recovery on a sustained basis.

Moving from crisis resolution to future crisis prevention, a clear political commitment is needed to **better adapt national policy frameworks to the reality of monetary union.** Pro-cyclical policies and a lack of market adaptability were the root causes of dysfunctional competitive readjustments in the euro area, coming today at a high collective cost.

Credible institutional reforms at national level must be conducive to:

- **Fiscal sustainability** – public debt brakes should be introduced in national laws and pension reforms accelerated to better link the effective retirement age with life expectancy. Tighter fiscal rules and institutions at sub-national level are equally important to ensure greater discipline and prudence.
- **Labour mobility and employability** – the flexicurity approach is particularly relevant in the euro area. Improved geographical and occupational mobility as well as better matching of skills and jobs are key to enhance adjustment dynamics, employment and productivity levels. Mutual recognition of diplomas and qualifications will support cross-border mobility and should be further promoted.

- **Wage and cost competitiveness** – it is vital that governments in their area of responsibility take action - while respecting the autonomy of the social partners - so that companies can produce in each country to unit labour costs that are globally competitive. Modernising wage-setting mechanisms, including the removal of price indexation schemes, restricting indirect labour costs and reforming social benefit systems are all important priorities in this respect. Public sector wages must also be set bearing in mind their effect on wage formation in the rest of the economy, their contribution to price stability and impact on global competitiveness.
- **Market adaptability** – removing barriers to competition, particularly in the services and non-tradable sectors, are critical to support higher productivity levels, ensure competitive price formation and reduce inflation inertia. Euro-area countries must commit to further market liberalisation and integration, including the development of a real internal market for energy. Removing obstacles to cross-border activity, including in the area of taxation, remains of the essence to support greater economic efficiency.
- **Financial stability** – Building counter-cyclical buffers in the financial sector, developing credible bank resolution frameworks and orderly restructuring conditions in a crisis situation are all fundamental elements to mitigate risk and better protect taxpayer's money in the future. The EU's financial sector reforms must be a priority.

These policy orientations are all aligned with the Europe 2020 objectives and are particularly relevant to improve sustainability and increase the growth potential of the euro area and all its individual economies.

Any competitiveness pact seeking greater political commitments in these areas should be based on a reliable method and timeframe to translate them into actions. Progress should be reviewed after 12 months and be reflected in the National Reform and Stability Programmes to be submitted in April this year.

Such a pact must ensure consistency in cross-border arrangements to **preserve market integration and bolster the functioning of the single market for the European Union as whole.**

Positions taken in the March 11 Summit should **complement and reinforce the ongoing reform of economic governance**, as proposed in the legislative package currently under discussion in the European Parliament and in the Council. In this process, we emphasise the need to give a prominent role to the Commission and limit the room for bargaining between Member States in the Council.

This is a time for political responsibility. A key factor of success will be to develop at both national and European level much greater incentives to deliver the right policies at the right time. This should ensure a real cultural shift and lead to a new collective drive for reforms.

We count on you to take these views into considerations and wish you a successful Euro Summit. I would like to inform you that a similar letter is being sent to President Barroso.

Yours sincerely,



Philippe de Buck

