

Ministry of Finance

> PO Box 20201 2500 EE Den Haag The Netherlands

Euro area Ministers of Finance

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Subject Policy Priorities Eurogroup Presidency

Dear Minister,

As you are aware, I have put forward my candidacy for the Eurogroup Presidency. I write to you now to set out my view on the direction and priorities for Eurogroup work in the coming years.

Our economic and monetary union has been continuously evolving throughout its existence. This process has enhanced and deepened during the last few years with the intense policy work done to tackle the sovereign debt crisis. Simultaneously, economic cooperation both within Europe and on a global level is changing as well. We will need thus to look very closely both at our internal policy development and at our place in the wider world.

We are living in challenging times. The global economic and financial crisis has had an enormous impact on the euro area as a whole. This impact was felt both economically, reflected in weak economic growth, unrest on financial markets, deteriorating fiscal stability, and socially, reflected both by rising unemployment and by the socially difficult consequences of inevitable measures.

Thanks to decisive policy actions over the past years, confidence has finally begun to return to the euro area, though we still have a lot of work to do to restore sustainable growth and to increase employment. The key stabilisation work has been effective: financial support was provided to several Member States, adequate firewalls were set up, the economic governance framework has been fundamentally reformed and the banking sector has been strengthened. European supervision as well as regulation regarding transparency and financial products have curtailed immoderate risktaking in financial markets. All of this was supported by important consolidation efforts as well as an ambitious structural reform agenda, aimed at boosting growth and addressing imbalances.

We now need to keep the momentum going, to ensure we retain the confidence we managed to regain in a lasting manner. There are still important challenges ahead and we now need to follow-up on our decisions to address them, to live up to the promises we have collectively made and take further steps where needed. The implementation of the policy agenda will not just improve the sustainability of our public finances, but will also improve competitiveness, tackle imbalances and boost growth and employment. We will have to promote a balanced approach, recognising that both discipline and solidarity are needed. Our main endeavour for the medium term is to contribute to a lasting

stabilisation of the euro area, with institutions and procedures that ensure optimal policy making, so as to be in a better position to detect and correct future imbalances at an early stage.

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This will require a concerted effort, showing that the euro area is not the cause of the difficult economic times, but part of the solution. We should work together in the Eurogroup to firmly support the interest of the euro area as a whole, and to best serve our common interest when dealing with our global partners.

Policy areas

In terms of the specific policy areas that we will need to address, I would like to highlight the following: (i) euro area economic challenges; (ii) surveillance procedures; (iii) economic governance; (iv) euro area enlargement and (v) institutional representation and procedural arrangements.

(i) Euro area economic challenges

In the light of the fundamental challenges facing the Economic and Monetary Union at the current juncture, I believe that our attention should be more intensively focused on restoring sustainable growth. Our economic policies need to be geared towards promoting strong, sustainable and inclusive economic growth, ensuring fiscal discipline, enhancing competitiveness and boosting employment, and in particular youth employment, in order for Europe to remain a highly competitive social market economy and to preserve the European social model.

Given that sustainable public finances are a prerequisite for durable growth, we will need to remain fully committed to taking all necessary budgetary and structural policy action to ensure sound finances in the short-, medium- and long term. The sustainability of public finances depends both on sound fiscal policy and on economic growth.

The current fiscal consolidation strategy within the euro area in line with the strengthened Stability and Growth Pact and the Fiscal Compact should continue to be one of the cornerstones of our strategy to ensure confidence of markets and consumers. The size and scope of the fiscal challenges differ among Member States and call for a differentiated approach. The speed of fiscal adjustment should continue to be based on country-specific fiscal and macro-financial risks. Moreover, the flexibility embedded in the Stability and Growth pact allows for taking account of cyclical developments for defining the appropriate policy stance as needed, while ensuring the long term sustainability of public finances.

At the same time, it is imperative that we boost jobs and growth with growth-enhancing structural reforms, improving competitiveness and tackling unemployment and the social consequences of the crisis. To this end we should further develop an economic growth strategy for the euro area. We should drive innovation, support the development of new technologies and reprioritise public and private expenditure towards R&D investment. We should also aim at raising the overall skills level of employees, while improving the overall business environment, supporting trade and further deepening the Single market. Further efforts to improve the resilience of the labour market and invest in human capital are essential for a durable job-rich recovery and improving employability. This should also support access to jobs, especially for young people. In this respect social partners have a key role to play alongside public authorities. We should also further discuss ways to foster economic convergence in the euro area, taking full advantage of new economic governance procedures that we have agreed (i.e. the European Semester and the Macroeconomic Imbalances Procedure).

The establishment of new instruments and institutions, the implementation of financial assistance programmes and agreements to deepen Economic and Monetary Union all show that we are serious about our unequivocal commitment to preserve the integrity of the euro area. Also in the future, there should be no doubt about our resolve to work together and ensure the stability and integrity of the euro area.

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(ii) Surveillance procedures

Over the past few years, financial support provided to several Member States, through adjustment programmes, removed uncertainty and restored confidence on financial markets. The implementation of the economic adjustment programmes will have to be monitored closely over the coming years. The Eurogroup will play an important role in this process as the main political decision making body.

We must take the opportunity of the increased stability that we have achieved to put a stronger focus on preventive policy coordination and use the time to pursue the fundamental reforms necessary to ensure strong growth, sustainable public finances and high employment. Our focus needs to shift from crisis management to delivering and implementing sound medium-term policies.

In order to make sure the agreed fiscal and structural reform policies are implemented, adequate surveillance is of utmost importance in the euro area. The European semester is at the core of the enhanced surveillance process, in particular for the euro area. Recommendations to euro area Member States should be carefully reviewed by the Eurogroup. While the country-specific recommendations should be tailored to the specific situation in the Member States, the recommendations should also ensure optimal coordination of policies for the euro area as a whole. In this respect, special attention should go to the specific euro area recommendations. Further progress could be made in ensuring the follow-up of the recommendations. At the start of the European semester the Eurogroup could discuss the appropriate policy stance, in order to enable effective coordination of economic policies within the euro area, while setting the scene and providing a basis for the submission of the Stability programmes in April.

Closely related to the European semester is the Macro-Imbalances Procedure (MIP). With respect to imbalances, we should discuss in a consequential manner the nature of a possible build-up of external and internal imbalances in the euro area, appropriate pre-emptive and corrective policy measures and rebalancing within the euro area, including its drivers.

The Excessive Deficit Procedure will remain one of the core surveillance procedures for the coming years. Most of us are currently in such a procedure and many of us have a deadline for correction for 2013 at the latest. It would be my intention to discuss more prominently in the Eurogroup the euro area EDPs and to try to identify a common euro area position on the situation for the individual euro area Member States. These discussions should be closely linked to the discussions on the appropriate fiscal and economic policies in the euro area.

Finalising the two-pack with the European Parliament will further strengthen the ex-ante policy coordination and surveillance of Member States' policies. Our procedures will be further enhanced by new monitoring requirements, including the introduction of a common budgetary timeline and common budgetary rules, such as independent macroeconomic forecasts and independent fiscal councils monitoring the implementation of national rules. In order to further strengthen ex-ante policy

coordination within the euro area, all major economic policy reforms planned by Member States should be discussed ex-ante and where appropriate coordinated among themselves, in line with Article 11 of the TSCG.

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(iii) Economic governance

Over the past few years, impressive progress has been made with respect to economic governance in the EMU, including the six-pack, the Treaty on Stability, Coordination and Governance (TSCG) and the two-pack. My immediate priority would be to implement this framework, also through including, where appropriate, the rules and procedures for the Eurogroup in the working methods. I would strongly support a rapid adoption of the two-pack by co-legislators, so that it can be applied as soon as possible.

The completion of the banking union is an essential further element for economic governance, deepening the integration and promoting the smooth functioning of the EMU. An important milestone reached already in this respect is the establishment of the Single Supervisory Mechanism (SSM), which constitutes a major qualitative step towards a more integrated financial framework in the euro area and the EU at large. The Eurogroup should continue to pay close attention to financial stability in the euro area and the range of measures needed to complete the Banking Union, in particular a single resolution mechanism, harmonised deposit guarantee schemes and a single rule book in close cooperation with all colleagues from the Ecofin Council.

The effective establishment of the SSM will open the way to the possibility of the direct recapitalisation of banks by the ESM. The European Council has repeatedly emphasised that this is imperative to break the vicious circle between banks and sovereigns. We pursue agreement on an operational framework for the direct bank recapitalisations in the first semester of 2013, in line with the December European Council conclusions. We need to pay close attention to set up a system for bank recapitalisation and resolution which is consistent with the evolving supervisory architecture.

In line with the European Council conclusions on completing EMU, governance within the euro area should be further improved, building on the TSCG and taking into account the euro area Summit statement of 26 October 2011. In particular there are two aspects of this statement that I would like to emphasise.

Firstly, the role of the Eurogroup in the preparation and follow-up of Euro Summits needs to be developed further. In the statement it is said that the Eurogroup will prepare the Euro Summit meetings and will ensure their follow-up. In that respect, I would envisage presenting the outcome of our preparatory discussions to the Euro Summit on behalf of the Eurogroup.

Secondly, I will actively pursue the regular dialogue between the President of the Euro Summit, the President of the Commission and the Eurogroup President, to ensure optimal coordination and proper handling of Euro Summit preparations in the Eurogroup.

Through these two channels, the Eurogroup will play its full role in further work to develop the governance framework for the euro area, as well as ensuring that the Euro Summit can best fulfil its role in providing strategic direction.

(iv) Euro area enlargement

The euro area has been enlarging consistently over the past years. Since the starting eleven in 1999, six Member States have adopted the euro. The Lisbon Treaty introduced a provision for the euro area member States to make a recommendation on euro adoption to the Council. This places much emphasis on our assessment of convergence. In doing so, we should take a comprehensive view on convergence, while being clear and consistent in our application of the criteria as set out in the Treaty, as well as being transparent in our procedures.

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We have learnt in recent years of the depth of the responsibilities towards each other as common partners in a monetary union. We have to act on these responsibilities individually and collectively in order to ensure that we all reap the benefits of the single currency. We also need to continue to look at our governance arrangements to make sure that they guarantee a smooth functioning of our structures in an enlarging euro area.

(v) Institutional representation and procedural arrangements

The role of the Eurogroup has evolved rapidly through the period of the financial crisis. It has tackled issues of the highest political and economic sensitivity, while becoming ever more visible in media and markets. This has placed an increasing emphasis on transparency and communication. I would intend to develop a clear and authoritative voice in agreement with all euro area members to communicate the decisions of the Eurogroup through all appropriate media.

One effective way of communication has been the use of terms of reference and Eurogroup statements. These should be pursued and enhanced so that relevant policy makers and commentators are given very clear indications of the positions of the Eurogroup.

In my view it is very important to take into account the diversity of viewpoints in the Eurogroup, to encourage open and reasoned discussion and to build consensus among Member States in a neutral way in order to promote the common interest of the euro area. The Eurogroup should also benefit from the use of discussion papers where appropriate, in order to facilitate exchanges and the decision making process.

I will also seek to represent the Eurogroup through a regular contact with Council Presidency to ensure the smooth handling of Eurogroup business in the Council. I also envisage pursuing a permanent open dialogue with the President of the ECB, the Vice-President of the Commission for Economic and Monetary Affairs and the euro and the CEO of the ESM. With a view to stronger legitimacy and accountability, I would foresee to continue the established practice of regularly appearing before the European Parliament. Finally, I would foresee further strengthening the ties with the social partners, by exploring the possibility of further exchanges of views beyond the Macro-Economic Dialogue.

The President should also represent the Eurogroup on an international stage. I would envisage defining a clear mandate for the President to represent the euro area's interests in the relevant international fora, as well as a continued discussion on the full range of issues related to external representation, including representation in international financial institutions and the G20 fora.

I would intend to examine the need to update the Eurogroup working methods. The current working methods date back to 2008. Given the number of substantial changes that have since intervened in the nature and scope of the deliberations in this forum – many linked to sovereign debt crisis management

activity – an update could be warranted, in particular to reflect the introduction of the Lisbon Treaty as well as the numerous changes in euro area and economic governance that have been introduced over the past few years. After consulting with you, I intend to put forward concrete proposals in the next months.

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We face very challenging times, with issues that already have and will test the limits of our resolve and capacity to act in the collective interest of the euro area. I am very confident that you share my commitment to tackle these challenges in a cooperative and constructive manner and that we share the common goal of ensuring a strong, prosperous and socially inclusive euro area.

I am looking forward to a lively discussion on the issues I have set out in this letter at our forthcoming meeting on Monday, 21 January 2013.

Yours sincerely,

Jeroen Dijsselbloem

Minister of Finance, the Netherlands

Cc.

the Vice-President of the European Commission for Economic and Monetary Affairs and the euro

the President of the European Central bank