



EUROPEAN COUNCIL
THE PRESIDENT

Brussels, 1 February, 2013

Dear Taoiseach,
Dear Tánaiste,

Over the past months we have taken important steps to address the shortcomings of the original EMU architecture revealed by the economic and financial crisis. Of particular importance were the recent agreement to establish a Single Supervisory Mechanism and the decision to move towards the establishment of a Single Resolution Mechanism. I am confident that the Council and the Parliament will work speedily to adopt the necessary legislation to advance towards a stronger and more effective EMU.

Completing the EMU, however, does not stop there. In December, the European Council asked me to further this work, in close cooperation with the President of the Commission, through a process of consultations with the Member States, and to present to the June 2013 European Council possible measures and a time-bound roadmap on the following issues:

1. Coordination of national reforms;
2. The social dimension of the EMU, including social dialogue;
3. The feasibility and modalities of mutually agreed contracts for competitiveness and growth;
4. Solidarity mechanisms that can enhance the efforts made by the Member States that enter into such contractual arrangements.

These four issues are vast and challenging. I would like the Council to provide input into this important policy debate.

I should therefore be very grateful if the Presidency could arrange for an in-depth discussion of these issues in the relevant Council formations (in particular ECOFIN, EPSCO and COMPET) and to report back to me. In order to help the Presidency in preparing and framing these discussions, I attach some reflections on the four points for your consideration.

In this respect, I should like to thank the Irish Presidency for the very interesting discussion held by the Ministers of European Affairs in Dublin on 21 January on the issue of democratic legitimacy and accountability. This is indeed a more horizontal issue to which I personally attach the utmost importance.

Yours faithfully,

Herman Van Rompuy

H. E. Enda Kenny T. D.,
Taoiseach

Mr. Eamon Gilmore T.D.,
Tánaiste

ELEMENTS TO FRAME THE DISCUSSIONS ON THE EMU IN THE COUNCIL**1. Coordination of all major national economic policy reforms**

Given the absence of exchange rate adjustments, a well functioning EMU requires efficient labour and product markets. Every national reform that has a bearing on the functioning of these markets inevitably has a spill-over effect on the other economies of the euro area. Member States should define a set of economic, social, structural and tax reforms that require ex ante coordination. The Commission could undertake an assessment of these reforms and measure their immediate and medium term consequences and spill-overs. This assessment could be the basis of a discussion ex ante of policy orientations, in order to reduce risks of significant divergences between Member States.

- 1) Which economic, structural and social reform areas do Member States consider to be the most appropriate for ex ante coordination?*
- 2) When in the policy preparation period and before the national legislative process should this coordination discussion and evaluation take place?*
- 3) Do Member States agree that such coordination, whilst being established as envisaged in Article 11 of the Treaty on Stability, Coordination and Governance (TSCG), should be anchored in the European Semester process?*
- 4) Beyond the European Semester and the submission of National Reform Programmes, do Member States agree that ex ante coordination should also be initiated as needed, for instance when a major reform plan is being considered or when a new government is elected?*

2. The social dimension of the EMU

The crisis has shown that lasting financial and economic divergences, if not corrected in due time, may threaten the financial stability of the euro area as a whole, but also our prosperity, and ultimately our European social model. The Commission's latest Employment and Social Situation Quarterly Review shows that long term unemployment is progressing and that poverty and social exclusion are reaching alarming levels in some cases. This is both harmful to our economic potential and our social cohesion. On this front, we shouldn't lose sight of the provisions of our Treaty and the specific targets of our Europe 2020 Strategy. Not only because adequate social protection, the fight against exclusion, the pursuit of a high level of education, training and protection of human health is an integral part of our global competitive advantage, but also more fundamentally because it lies at the heart of the social contract that is the cement of our political stability. In the context of the EMU, the social dimension has a particular relevance along several lines: First, integrated labour markets require converging employment policies. Excessive social divergence can also ultimately threaten the functioning and the stability of the monetary union. Second, a globally competitive knowledge based economy requires continuous support for our human capital through social investments that allow us to better adapt to change.

- 5) Do Member States agree that further monitoring and benchmarking instruments should be established to better monitor employment and social policies, enhance peer-review, look at best practices in the EU and draw lessons in order to limit excessive social divergences? In particular, how could the renewed economic governance framework best contribute to this process?*

- 6) *Could arrangements of a contractual nature in some areas be applied to social outcomes?*
- 7) *What concrete social investments (in education and life-long training for example) can Member States develop to raise employment, particularly of young people beyond what is already in train (ex. Compact for Growth and Jobs and the Youth Guarantee Plan...)? For the medium term, what aspects of employment policies warrant greater focus within EMU to ensure greater labour mobility, portability of social rights...*
- 8) *What additional measures, if any, could Member States envisage to combat poverty and social exclusion, address the challenges of ageing populations.?*
- 9) *Could the existing processes of consultation of social partners at EU level be made more effective in order to ensure their full involvement? Would new forms of consultation be desirable?*

3. Feasibility and modalities of mutually agreed contracts for growth and competitiveness

It has become increasingly clear that economic reforms and convergence are a matter of common interest. The enhanced economic governance achieved with the "six pack" and the macroeconomic imbalances procedures, as well as the framework for ex ante coordination of national economic reforms proposed above, all move in that direction. However this framework could be further enhanced, notably to allow more discussions of structural weaknesses and more ownership of policy recommendations. These contracts would also need to be embedded in the existing economic governance framework.

- 10) *Do Member States agree that such contractual arrangements would need to address microeconomic, sectoral and institutional bottlenecks and aim at enhancing the competitiveness and the growth potential of the economy?*
- 11) *Would such contractual arrangements have a legally binding character or would they be more political in nature?*
- 12) *How would such contractual arrangements relate to the Country-Specific Recommendations or the National Reform Programmes?*
- 13) *How could they also include employment and social benchmarks?*
- 14) *How could they be associated with solidarity mechanisms in order to cover the upfront costs of some critical but expensive economic and social reforms?*

4. Solidarity mechanisms

The discussion on solidarity mechanisms linked to the implementation of the aforementioned contractual arrangements reflects the need to progress in respect of both discipline and solidarity. In addition, it responds to the reality that structural reforms, while necessary, are sometimes economically and socially costly. A mechanism to cover some of the costs of these reforms would therefore facilitate their implementation, in particular for countries facing particularly difficult economic and social circumstances.

- 15) *Under which criteria should solidarity financing be made available?*
 - 16) *What are Member States' ideas on the appropriate level of such support?*
 - 17) *Regarding the sources of funding, what are Member States' views on different options, ranging from Member States' contributions to a mechanism raising its own resources?*
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