



**EUROPEAN COUNCIL
THE PRESIDENT**

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**Remarks by Herman Van Rompuy,
President of the European Council,
following the second meeting of the Task force on economic governance**

Today, we had the second meeting of the Task Force. Today, we have been able to translate the commitment of the first meeting into more concrete proposals on two main issues.

Let me briefly recall the four main objectives we agreed upon at the first meeting.

Firstly: strengthening budgetary discipline through the Stability Pact. Secondly, reducing divergences in competitiveness between the Member States. Thirdly, ensuring an effective financial crisis mechanism. Fourthly, improving economic governance and coordination.

Today, we have worked on the first two points: strengthening the Stability Pact and reducing competitiveness divergences. In other words: budget surveillance and macro-economic surveillance. In these two areas, rapid progress can be made. That was clear today from the wide consensus on all the main points under discussion.

Therefore, when I make my Progress Report to the European Council next week, I will be able to present our first orientations on these two priorities. We will take up the other two points as of our next meeting, on July 12.

We have received substantial contributions from Member-States. It shows their close involvement. We could also build on the preparatory work by a group of 'sherpas'.

What did we conclude today?

On the Stability Pact, we made progress on a number of elements. Each judged in isolation may seem a small step; taken together however, they result in a new way of working.

P R E S S

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Until now, the Pact mainly contained heavy sanctions at the end of the procedure: the "nuclear option". It is useful to have this ultimate option, but the Pact needs to consist of a full range a range of tools and "weapons" along the way. Therefore, everybody agreed today on ways and means to review the fiscal situation of Member States at an earlier stage, and in a more graduated way.

Let me mention four improvements.

1. The first is the so-called "European semester". In the spring, national budgetary plans would be presented to the Commission and EU Member States. Of course, not to be checked in detail or to be decided upon by the European institutions! That is the prerogative of the national parliaments. However, the main assumptions underlying the budgetary plans, like the levels of growth or inflation, would be examined. So would the main aggregates, like total revenues, total spending and deficit targets.

Timing is key here. A government presenting a budgetary plan with a high deficit will have to justify itself in front of its peers, amongst Finance Ministers. Since this would take place as early as the spring, there would still be time to adjust the plans before the final budget is presented. Moreover, a national parliament would be able to judge its governments' budget plans knowing fully their credibility. Of course, we need to take into account the specificity of some countries.

2. We will also improve the Pact by creating more sanctions earlier on. Sanctions could already kick in before the 3 percent threshold for the annual deficit is exceeded, for instance if warnings have been neglected, or if the level of debt rises too quickly. To use the traffic light image: until now, you only got fined when driving through the red light of the 3 percent; from now on, you could also be in trouble when crossing the orange light. Obviously, the conditions -- under which circumstances orange is an infringement of the rules -- will have to be defined precisely. We have to define a new set of sanctions -- more progressive and consistent. We have asked the Commission to come forward with proposals on this.

3. A third element in the budget surveillance is taking more account of the level of public debt. So far, the focus has been almost exclusively on the maximum annual deficit, the 3 percent of GDP. Much less attention has been paid to the level of public debt, the 60 percent. This needs to be corrected. We do not propose a special procedure for "excessive debt", but one idea could be to launch the excessive deficit procedure earlier for countries where debt is not reduced quickly enough. This could be one of the triggers for an orange light I just referred to.

4. Member States also supported ensuring the independence of national statistical offices for data provision, free from political influence.

On all these Pact-related points, there was a strong convergence of views.

Let me come to the second point on the agenda: the competitiveness surveillance. Here again, we will change our way of working.

During the crisis we have learnt -- the hard way -- something we could have known all along: that sound budgetary policies are necessary but not sufficient to ensure competitiveness. Over the years, competitiveness in some Member States has improved thanks to wage moderation and productivity improvement. Others have accumulated important losses of competitiveness and balance of payments deficits on the current account. Moreover, some countries were growing quickly and had apparently sound public finances, but underlying weaknesses and imbalances, including private sector debts, provoked an abrupt reversal in times of crisis.

These imbalances are a particular problem for members of the Euro area. Countries can no longer devalue; for some economies, membership of the Euro zone acted as a "sleeping pill". We need to avoid a "rude awakening" by market forces. Therefore we have asked the Commission to develop indicators of competitiveness; to come up with the tools aligned to this analysis. They should function as an early warning, a wake-up call. In my view we also need corrective measures for those who do not act in time when warned.

Before, it is as if we were looking at Member States' fiscal positions through the keyhole of the annual deficit, whereas we now all want to use the bay window of their economies. Therefore macro-economic surveillance should function next to the budget surveillance of the Pact.

I am happy about the progress made on these two main points on the agenda, in a very constructive atmosphere. I will report about it to the European Council next week. I am confident that the Heads of State and Government will share our determination to resolve these issues quickly.
