



**EUROPEAN COUNCIL
THE PRESIDENT**

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

Today, the European Union made a great step forward in the European Union's economic governance.

The package agreed by the Task force, when validated by the European Council next week, will be the biggest reform of the Economic and Monetary Union since the Euro was created.

The recommendations and concrete proposals contained in the report of the Task force go in five directions.

First direction: broader economic surveillance.

We recommend to create a mechanism for macro-economic surveillance. This is in my view the biggest innovation. An early warning system will detect the risk of real estate bubbles or of unsustainable patterns on the balance of payments, or strong divergences in competitiveness. These types of risks were neglected in the first decade of the euro.

The crisis has shown that sound budgets are not enough to guarantee sustainable economic growth. That's why we recommend this surveillance mechanism, as a macro-economic pendant of the budget-focused Pact. Ultimately this may result in sanctions for countries in the Eurozone only. It will strengthen the economic pillar of the Economic and Monetary Union.

P R E S S

FOR FURTHER DETAILS:

Dirk De Backer - Spokesperson of the President - ☎ +32 (0)2 281 9768 - +32 (0)497 59 99 19
Jesús Carmona - Deputy Spokesperson of the President ☎ +32 (0)2 281 9548 / 6319 - +32 (0)475 65 32 15
e-mail: press.president@consilium.europa.eu
internet: <http://www.european-council.europa.eu/vanrompuy/>

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Second direction: greater fiscal discipline, a stronger Stability and Growth Pact.

In earlier meetings, we had already agreed on the main principles:

- A wider range of sanctions and measures, both financial and political;
- More focus on the debt criterion, which used to be disregarded;
- An adapted timing, with sanctions kicking in at an earlier stage.

Today we also reached consensus on how to implement these general principles. One element is the agreement on more automaticity in the decision making. For the decision on all new sanctions, the so-called reversed majority rule will apply: a Commission recommendation on sanctions will be adopted unless a qualified majority of Member States in the Council votes against.

Two further remarks on the Pact.

Firstly, balanced budgets are not a goal in themselves. We take these measures because fiscal sustainability creates confidence and lays the basis for economic growth and jobs.

Secondly, the Task Force's commitment to a stronger Pact was high from the beginning to the end. I was impressed by the determination of the Member-States to impose these self-constraints on themselves. The full package now at the table will make our Economic and Monetary Union more solid.

Third direction: the Task-Force recommends: deeper and broader coordination, notably through the "European Semester". I will not go into this, because it was already decided and will apply as of 2011. The Semester will increase the awareness that the decisions of one, affect all.

Fourth direction: a more robust framework for crisis management. The Task Force considers there is a need for a credible crisis resolution framework for the euro area in the medium term. It should be capable of addressing financial distress and preventing contagion from one country to another. It must avoid the moral hazard implicit in any ex-ante rescue scheme. The precise features and operational means of such a crisis mechanism will require further work.

Fifth and final direction: stronger institutions. At the national level, the Task Force recommends the use or setting up of public institutions or bodies to provide independent analysis and forecasts on domestic fiscal policy matters.

Taken separately, some of these reforms may seem small steps. Together, they are a major step forward.

This spring the European Union won the battle of the Euro. We took far-reaching decisions under the pressure of events. Today, without such pressure, we show the responsibility to draw the right lessons from the crisis. These recommendations provide a major response to a major challenge.

Before concluding, it may be useful to open a wider perspective on what these proposals aim for.

The Euro has been unique from the start: a monetary union with a decentralised fiscal framework. Thanks to the single currency and the internal market our Member States are deeply integrated (both the 16 and the 27). The crisis has shown how deeply! Everybody discovered that the decision of one Member States potentially affects all. However, Member States are responsible for their own fiscal and economic policies and they will remain so.

All recommendations will allow us to much better deal with this unique situation. Basically they all aim for one of two things.

On the one hand: making sure that each Member State fully takes into account the impact of its economic and fiscal decisions on its partners, and on the stability of European Union as a whole. We achieve this with a mix of more intense cooperation and stronger constraints.

On the other hand: strengthening the EU's capacity to react when policies in one Member State present a risk to the rest of the Union. In short: helping each to behave responsibly, and stepping in when irresponsible behaviour of one member affects the ensemble.

To conclude, a remark on the method and the way forward.

The recent crisis has sharpened our minds. We have been able to make proposals which were unthinkable only a few months ago, and to finish our report in October rather than December 2010, as originally planned. In this respect, the Task Force has worked like a pressure cooker. Everybody has contributed actively, the Commission, the Central Bank and the Ministers of Finance. This has allowed us to accelerate the process, thanks also to the close link with the European Council. I have expressed my thanks to all Task Force Members for their constructive approach.

From here I shall go with the report to the European Council to get the political backing of the Heads of State and Government.

I am confident that the regular legislative process will then be able to translate our political agreement into legislative form. These measures should be in place as quickly as possible. It is our common duty.
