

**CONCLUSIONS OF THE HEADS OF STATE OR GOVERNMENT OF THE EURO AREA
OF 11 MARCH 2011**

The Heads of State or Government of the Euro area adopted the following conclusions:

1. The Pact for the Euro which establishes a stronger economic policy coordination for competitiveness and convergence (attached) has been endorsed. This Pact will be presented to the European Council of 24/25 March 2011 with a view for non-euro area Member States to indicate whether they intend to participate in the Pact. At the same time Euro area Member States shall indicate first measures they pledge to implement under the Pact for the next year.
2. The Heads of State or Government of the Euro area assessed progress made since the European Council of 4 February 2011 on the comprehensive response to the crisis, with a view to completing this package for the 24/25 March European Council.

3. They welcome the progress made in the implementation of the on-going IMF/EU programs in Greece and Ireland, and the strong commitments by
 - Greece to rigorously continue structural reforms, increase capacity building for their implementation, fully and speedily complete the € 50 bn privatization and real estate development programme it has announced and to introduce a strict and stable fiscal framework with the strongest possible legal basis to be decided by the Greek government;
 - Ireland to introduce a strict and stable fiscal framework, with the strongest possible legal basis, and to stick to fiscal targets through expenditures decreases and revenue increases as foreseen in the programme.
4. Following their statement of 4 February concerning the assessment by the Commission, in liaison with the ECB, of the implementation of measures taken to strengthen fiscal positions and growth prospects, they welcome progress made in a number of countries. In particular, Heads of State or Government, the President of the Commission and the President of the ECB welcome and support the package of far-reaching measures announced today by Portugal concerning fiscal, financial and structural reforms.
5. The Heads of State or Government of the Euro area invite Ministers of Finances to complete their work on the ESM and the EFSF in time for the European Council of 24/25 March 2011. This work should strictly adhere to and fully implement the European Council conclusions of December 2010 and the Eurogroup statement of 28 November 2010, which define the key features of the ESM (see annex II). The following conclusions have been drawn from the discussion:

§ **Financing capacity**

The ESM will have an overall effective lending capacity of 500 billion euros. During the transition from EFSF to ESM, the consolidated lending capacity will not exceed this amount. The ESM effective lending capacity will be ensured by establishing the appropriate mix between paid-in capital, callable capital and guarantees. A timetable for the gradual paying in of capital will be established, fully respecting national parliamentary procedures.

Until the entry into force of the ESM, the agreed lending capacity of 440 billions euros of the EFSF will be made fully effective.

§ **Instruments**

The Heads of State or Government recall that the ESM will provide financial assistance when requested by a Euro area member and when such intervention is deemed indispensable to safeguard the stability of the Euro area as a whole. Any decision to that effect will be taken by unanimity on the basis of a debt sustainability analysis of the Member State concerned conducted by the Commission and the IMF, in liaison with the ECB. Financial assistance will be subject to strict conditionality under a macro-economic adjustment programme.

Financial assistance from the ESM and EFSF will take the form of loans. However, to maximize the cost efficiency of their support, the ESM and the EFSF may also, as an exception, intervene in the debt primary market in the context of a programme with strict conditionality.

§ **Financial conditions**

Pricing of the EFSF should be lowered to better take into account debt sustainability of the recipient countries, while remaining above the funding costs of the facility, with an adequate mark up for risk, and in line with the IMF pricing principles. The same principles will apply to the ESM.

Against this background and in view of the commitments undertaken by Greece in the context of its adjustment programme, the interest rate on its loans will be adjusted by 100 basis points. Moreover, the maturity for all the programme loans to Greece will be increased to 7.5 years, in line with the IMF.

Finance Ministers will specify modalities of implementation of these decisions.

6. All Member States will ensure that concrete plans, compliant with EU State aid rules, are in place to deal with any bank that demonstrates vulnerabilities in the stress tests that will be completed by the summer.
7. The Heads of State or Government call on Finance Ministers to finalize their work on the Commission six legislative proposals on economic governance and to reach, before the end of March, a general approach ensuring full implementation of the recommendations of the Task Force. In this context, they agree that the setting up of a numerical benchmark of 1/20 for debt reduction, to be assessed taking into account all relevant factors, as outlined in the Commission proposal, should be fully part of this package. They all support the adoption of the draft directive on national fiscal framework. In deciding on the steps in the SGP the Council is expected to, as a rule, follow the recommendations of the Commission or explain its position in writing.
8. The Heads of State or Government agree that the introduction of a financial transaction tax should be explored and developed further at the Euro area, EU and international levels.

A PACT FOR THE EURO
STRONGER ECONOMIC POLICY COORDINATION FOR COMPETITIVENESS AND
CONVERGENCE

Euro area Heads of State and Government have decided to adopt a Pact for the Euro to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination in the Euro area, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. Competitiveness is essential to help the EU grow faster and more sustainably in the medium and long term, to produce higher levels of income for citizens, and to preserve our social models. Non-euro area Member States are invited to participate on a voluntary basis.

This renewed effort for stronger economic policy coordination for competitiveness and convergence rests on **four guiding rules**:

- a. It will be *in line with and strengthen the existing economic governance* in the EU, while providing added value. It will be consistent with and build on existing instruments (EU 2020, European Semester, Integrated Guidelines, Stability and Growth Pact and new macro-economic surveillance framework). It will involve a special effort going beyond what already exists and include concrete commitments and actions that are more ambitious than those already agreed, and accompanied with a timetable for implementation. These new commitments will thereafter be included in the National Reform and Stability Programmes and be subject to the regular surveillance framework, with a strong central role for the Commission in the monitoring of the implementation of the commitments, and the involvement of all the relevant formations of the Council and the Eurogroup. The European Parliament will play its full role in line with its competences. Social partners will be fully involved at the EU level through the Tripartite Social Summit.

- b. It will be focused, action oriented, and cover *priority policy areas that are essential for fostering competitiveness and convergence*. It will concentrate on actions where the competence lies with the Member States. In the chosen policy areas *common objectives will be agreed upon at the Heads of State or Government level. Participating Member States will pursue these objectives with their own policy-mix, taking into account their specific challenges*.
- c. *Each year, concrete national commitments will be undertaken by each Head of State or Government*. In doing so, Member States will take into account best practices and benchmark against the best performers, within Europe and vis-à-vis other strategic partners.

The implementation of commitments and progress towards the common policy objectives will be *monitored politically by the Heads of State or Government* of the Euro area and participating countries on a yearly basis, on the basis of a report by the Commission. In addition, Member States commit to consult their partners on each major economic reform having potential spill-over effects before its adoption.

- d. Euro area Member States are fully committed to the completion of the Single Market which is key to enhancing the competitiveness in the EU and the Euro area. This process will be fully in line with the treaty. *The Pact will fully respect the integrity of the Single Market*.

Our goals

Euro area Member States undertake to take all necessary measures to pursue the following objectives:

- § Foster competitiveness
- § Foster employment
- § Contribute further to the sustainability of public finances
- § Reinforce financial stability

Each participating Member State will present the specific measures it will take to reach these goals. If a Member State can show that action is not needed on one or the other areas, it will not include it. The choice of the specific policy actions necessary to achieve the common objectives *remains the responsibility of each country, but particular attention will be paid to the set of possible measures mentioned below.*

Concrete policy commitments and monitoring

Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.

a. Foster competitiveness

Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other Euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. To ensure that growth is balanced and widespread in the whole Euro area, specific instruments and common initiatives will be envisaged to foster productivity in regions lagging behind.

Each country will be responsible for the specific policy actions it chooses to foster competitiveness, but the following reforms will be given particular attention:

- (i) respecting national traditions of social dialogue and industrial relations, measures to ensure costs developments in line with productivity, such as:

- review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process;
- ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).

(ii) measures to increase productivity, such as:

- further opening of sheltered sectors by measures taken at the national level to remove unjustified restrictions on professional services and the retail sector, to foster competition and efficiency, in full respect of the Community *acquis*;
- specific efforts to improve education systems and promote R&D, innovation and infrastructure;
- measures to improve the business environment, particularly for SMEs, notably by removing red tape and improving the regulatory framework (e.g. bankruptcy laws, commercial code).

b. Foster employment

A well functioning labour market is key for the competitiveness of the Euro area. Progress will be assessed on the basis of the following indicators: long term and youth unemployment rates, and labour participation rates.

Each country will be responsible for the specific policy actions it chooses to foster employment, but the following reforms will be given particular attention:

- labour market reforms to promote “flexicurity”, reduce undeclared work and increase labour participation;
- life long learning;
- tax reforms, such as lowering taxes on labour to make work pay while preserving overall tax revenues, and taking measures to facilitate the participation of second earners in the work force.

c. Enhance the sustainability of public finances

In order to secure the full implementation of the Stability and Growth Pact, the highest attention will be paid to:

§ Sustainability of pensions, health care and social benefits

This will be assessed notably on the basis of the sustainability gap indicators¹. These indicators measure whether debt levels are sustainable based on current policies, notably pensions schemes, health care and benefit systems, and taking into account demographic factors.

Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

¹ The sustainability gap are indicators agreed by the Commission and Member States to assess fiscal sustainability.

§ National fiscal rules

Euro area Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used, but will make sure that it has a sufficiently strong binding and durable nature (e.g. constitution or framework law). The exact formulation of the rule will also be decided by each country (e.g. it could take the form of a "debt brake", rule related to the primary balance or an expenditure rule), but it should ensure fiscal discipline at both national and sub-national levels. The Commission will have the opportunity, in full respect of the prerogatives of national parliaments, to be consulted on the precise fiscal rule before its adoption so as to ensure it is compatible with, and supportive of, the EU rules.

d. Reinforce financial stability

A strong financial sector is key for the overall stability of the Euro area. A comprehensive reform of the EU framework for financial sector supervision and regulation has been launched.

In this context, Member States commit to putting in place national legislation for banking resolution, in full respect of the Community *acquis*. Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis. In addition, the President of the ESRB and the President of the Eurogroup will be invited to regularly inform Heads of State or Government on issues related to macro-financial stability and macroeconomic developments in the Euro area requiring specific action. In particular, for each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored.

In addition to the issues mentioned above, attention will be paid to **tax policy coordination**.

Direct taxation remains a national competence. Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the Euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.

Developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.

The Commission intends to present a legislative proposal on a common consolidated corporate tax base in the coming weeks.

Concrete yearly commitments

In order to demonstrate a real commitment for change and ensure the necessary political impetus to reach our common objectives, each year Member States of the Euro area will agree at the highest level on a set of concrete actions to be achieved within 12 months. The selection of the specific policy measures to be implemented will remain the responsibility of each country, but the choice will be guided by considering in particular the issues mentioned above. These commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year which will be assessed by the Commission, the Council, and the Eurogroup in the context of the European Semester.

Next steps

The Pact will be formally adopted at the EC on 24 March by Euro area Member States and those Member States non participating in the euro which wish so. Those MS in a position to do so should announce already on 24 March the concrete commitments to be achieved in the next 12 months. In any event, concrete commitments should be included in the National Reform and Stability Programmes to be submitted in April and will be presented to the June European Council.

GENERAL FEATURES OF THE FUTURE MECHANISM
EUROGROUP STATEMENT OF 28 NOVEMBER 2010

"The recent events have demonstrated that financial distress in one Member State can rapidly threaten macro-financial stability of the EU as a whole through various contagion channels. This is particularly true for the Euro area where the economies, and the financial sectors in particular, are closely intertwined.

Throughout the current crisis, Euro area Member States have demonstrated their determination to take decisive and coordinated action to safeguard financial stability in the Euro area as a whole, if needed and return growth to a sustainable path.

In particular, the European Financial Stability Facility (EFSF) has been set up to provide for swift and effective liquidity assistance, together with the European Financial Stabilisation Mechanism (EFSM) and the International Monetary Fund, and on the basis of stringent programmes of economic and fiscal policy adjustments to be implemented by the affected Member State and ensuring debt sustainability.

On 28 - 29 October the European Council agreed on the need to set up a permanent crisis mechanism to safeguard the financial stability of the Euro area as a whole. Eurogroup Ministers agreed that this European Stability Mechanism (ESM) will be based on the European Financial Stability Facility capable of providing financial assistance packages to Euro area Member States under strict conditionality functioning according to the rules of the current EFSF.

The ESM will complement the new framework of reinforced economic governance, aiming at an effective and rigorous economic surveillance, which will focus on prevention and will substantially reduce the probability of a crisis arising in the future.

Rules will be adapted to provide for a case by case participation of private sector creditors, fully consistent with IMF policies. In all cases, in order to protect taxpayers' money, and to send a clear signal to private creditors that their claims are subordinated to those of the official sector, an ESM loan will enjoy preferred creditor status, junior only to the IMF loan.

Assistance provided to a Euro area Member State will be based on a stringent programme of economic and fiscal adjustment and on a rigorous debt sustainability analysis conducted by the European Commission and the IMF, in liaison with the ECB.

On this basis, the Eurogroup Ministers will take a unanimous decision on providing assistance.

For countries considered solvent, on the basis of the debt sustainability analysis conducted by the Commission and the IMF, in liaison with the ECB, the private sector creditors would be encouraged to maintain their exposure according to international rules and fully in line with the IMF practices. In the unexpected event that a country would appear to be insolvent, the Member State has to negotiate a comprehensive restructuring plan with its private sector creditors, in line with IMF practices with a view to restoring debt sustainability. If debt sustainability can be reached through these measures, the ESM may provide liquidity assistance.

In order to facilitate this process, standardized and identical collective action clauses (CACs) will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new Euro area government bonds starting in June 2013. Those CACs would be consistent with those common under UK and US law after the G10 report on CACs, including aggregation clauses allowing all debt securities issued by a Member State to be considered together in negotiations. This would enable the creditors to pass a qualified majority decision agreeing a legally binding change to the terms of payment (standstill, extension of the maturity, interest-rate cut and/or haircut) in the event that the debtor is unable to pay.

Member States will strive to lengthen the maturities of their new bond emissions in the medium-term to avoid refinancing peaks.

The overall effectiveness of this framework will be evaluated in 2016 by the Commission, in liaison with the ECB.

We restate that any private sector involvement based on these terms and conditions would not be effective before mid-2013.

President of the European Council Herman Van Rompuy has indicated that his proposal on limited treaty change to the European Council at its next meeting will reflect today's decision."
