Letter from the President of the Eurogroup to euro area Finance Ministers, the European Commissioner for Economic and Monetary Affairs and the President of the European Central Bank

Dear Minister,

As you are aware, the entry into force last December of the Lisbon Treaty has enhanced and formalised the status of the Eurogroup, including by providing officially for the first time for the election of a President for a term of office of two and a half years.

I indicated to you at our last meeting that I wished to present my own candidacy and I am grateful for the very broad support that I received at that time. I acknowledge the very legitimate desire of some of you to approve my candidacy on the basis of a clear statement of my intentions for the period of the mandate, so I write to you now to set out my vision of the direction and priorities for Eurogroup work in the coming years.

While the new Treaty brings a new institutional framework, the changing realities of the global economic context will also have an important impact on our work. Our economic and monetary union has matured through the decade of its existence, but there are new modes of European and global economic cooperation that are only in their infancy. We will need to look very closely both at our internal policy development and monitoring, and at our place in the wider world. The Eurogroup itself will need to adapt to increase its effectiveness as an economic forum.

There are significant challenges ahead, for budgetary policies certainly, as we work to restore the sustainability of our public finances. But the challenges are as big or even bigger in respect of our broader economic policy agenda, where we must take the decisions that can restore competitiveness and potential growth; in respect of the financial environment, where
we have seen the costs of instability and must ensure that we guard against a repetition of recent events; and in respect of the euro area’s role and representation in the global economic dialogue.

These challenges will require a clear commitment from all of us to work together to achieve our destiny in common. I will be asking of each of you a clear indication of that commitment, to work together in the Eurogroup to support the interests of the eurozone, and to carry that eurozone interest into discussions with our global partners. I will also be asking you to consider the impact of your domestic policies on all of us within the eurozone. I will be asking you to provide support to each other through our peer review processes and, where necessary, to help each other to take the hard political decisions required in the difficult economic circumstances that we face.

Policy areas

In terms of the specific policy areas that we will need to address, I would highlight the following:

- Budgetary policy coordination, the specification of budgetary exit strategies and the implementation of the Stability and Growth Pact (SGP);
- Broader economic surveillance, notably as regards competitiveness and macroeconomic imbalances - this will include the new formal eurozone chapter of the Broad Economic Policy Guidelines (BEPGs) and our shared interest in the development of EU2020 agenda;
- The euro on the international stage, covering issues both of substance and of coherent representation;
- The enlargement of the euro area and the management of the convergence process.

All of our policy discussions will take place within the context of evolving relations with our intra-EU partners, both within the ECOFIN Council, where the outcome of much of our work will be formalised, and in the European Council, which will continue to take a keen interest in economic issues.

Budgetary policies, exit strategies and the Stability and Growth Pact

On budgetary policies, our priority must be to ensure that we all have credible strategies to restore the sustainability of our public finance once the recovery takes hold. This means a
thorough and continuing debate on exit strategies in the broadest sense, and more detailed and specific policy prescriptions through the implementation of the Stability and Growth Pact.

As the Lisbon Treaty stipulates that only euro area Member States vote on each others' excessive deficit procedures, the focus of debate shifts even more clearly onto the Eurogroup. Media and markets will be watching us closely and we must rise to the challenge and present clear and consistent recommendations to support ambitious fiscal consolidation.

Back in 2006, I stressed the need to ensure rapid progress towards medium-term objectives, to step up consolidation efforts in "good times" and to avoid pro-cyclical policies. We are all painfully aware of the financial and economic crisis that has occurred since then, putting a different complexion on our budgetary policy priorities. The required policy actions in the short-term have changed, with the need for stimulus to avoid a deeper recession, but the medium- and long-term priorities remain unchanged, starting with credible fiscal plans to ensure sustainability.

Our mid-term budgetary review process has established itself as a very successful focal point for discussions. The split between the public horizontal orientation and the confidential country-specific recommendations has fostered a very constructive and open debate. The continuation of such frank exchanges will be crucial in the years to come, as will your continued co-operation in presenting all major fiscal policy decisions to the Eurogroup for discussion, preferably prior to their final adoption at the national level.

Overall, our budgetary policy discussions will provide a serious test of our desire and capacity to coordinate within the euro area, with both a formal framework for action in the form of the SGP, and extremely visible results. It is a test that all of us, both individually and collectively as the Eurogroup, will have to pass.

Broader economic surveillance

Getting our budgetary policies back on a sustainable track is merely one precondition for a return to stability and sustainable growth. The crisis has served to highlight some of the weak points that were masked by the relatively benign economic environment of the last few years, issues that need to be addressed by each of us if we are to improve our economies' resilience and increase potential growth.
To this end, the Eurogroup should pursue broader economic surveillance, both to identify individual priority issues for each of our Member States and to establish a coherent framework for action to enhance the performance of the entire eurozone economy.

We have tentatively begun this work with examinations of labour markets and competitiveness developments. We will continue to draw on excellent contributions by the Commission and the ECB to more clearly identify the structural impediments to growth, including both the drivers of growth differentials and the imbalances in our economies which have had such an important effect on our performance during the recession.

I would like to see this analysis developed further, into a more formalised framework similar to the one employed for our budgetary analysis. We need a candid discussion, both about the overall goals of our economic policy and about the individual needs and priorities of our Member States. A formal exercise similar to the mid-term budget review should be carried out and the specific interests we share should be very clearly reflected in the euro area chapter of the BEPGs.

The country-specific recommendations issued in the context of the stability programmes and the BEPGs should be tailored to the particular situation of the Member States concerned and present a practical and precise course of action. This would also convey greater relevance to these recommendations in the national policy debates.

Furthermore, in cases where it is established that the economic policies of a Member State are not consistent with the BEPGs or that they risk jeopardising the proper functioning of economic and monetary union, the European Commission should not hesitate to make use of Article 121 TFEU and to address a warning to the Member State concerned. Following the issuance of a warning by the European Commission, the Eurogroup should have a frank discussion with the Member State concerned with a view to ensuring that effective action is taken.

This will, of course, interact very closely with the debate on EU2020 - I would like to see the Eurogroup take a lead in that discussion and be bold in setting out its own priorities for structural improvements in the coming years. Of course, the European Council will determine the overall scope and features of the EU2020 package, but I see a very strong case for the Eurogroup making its views very clear, even presenting them to the President of the European Council in the same way that we have previously exchanged views with the President of the Commission on similar topics.
The international dimension

The international context for economic and financial policy discussions has changed dramatically over the past 18 months. The emergence of the G20, along with the increasingly prominent role of Heads of State and Government in its deliberations, has changed entirely the framework for international cooperation.

Coordination of the EU position in the G20 has so far been handled through the Council, represented by the Council Presidency both at Finance Ministers and Heads levels. The Lisbon Treaty not only changes the institutional framework for the representation of the Union, notably at Heads level - it also provides a specific legal base for the euro area to establish positions and ensure unified representation in the international financial institutions (IFIs) and conferences.

I think it is essential at this juncture to ensure that the euro area's interests are fully reflected in international discussions and I would expect the Commission to inform us very soon on the proposals it intends to make under Article 138 of the Treaty on the Functioning of the European Union. Whatever positions and institutional arrangements we adopt, we will need to be very careful to ensure their proper coordination with our ECOFIN colleagues and our own Heads of State and Government. This does not mean that the euro area should not be taking the lead - the Lisbon Treaty gives us a very clear mandate and strong instruments to ensure that the interests of the Eurogroup are coordinated and fully represented on the global stage.

Of course, a first step will be the contribution to the G20 Framework for Growth, which we will already discuss at our next meeting, and on which we have already established the principle that the euro area dimension should be fully taken into account. I firmly believe that the euro area dimension should permeate all of the work of the IFIs and conferences - the Eurogroup will need to work hard to make sure that it does so.

Euro area enlargement and the convergence process

The enlargement of the euro area in recent years to include four of the Member States that joined the Union in 2004 can be considered a great success, both for the countries concerned and for the euro area as a whole. However, the crisis and the way in which we all emerge from it will pose some significant challenges.
First of all, we will need to be clear about how we manage our relations with our partners in the exchange rate mechanism (ERM-2). It is clear that the strictures on exchange rate adjustment of the ERM-2 require specific policy commitments and responses in other areas, and it has become clear that the monitoring of those policy commitments must be stepped up to ensure that ERM membership does not exacerbate the severe economic difficulties some of its members are facing.

ERM-2 Members have agreed to submit renewed and enhanced policy commitments in the coming round of convergence programmes - it will be extremely important to ensure ongoing discussion and monitoring by the Eurogroup, as well as dialogue with those countries, to facilitate the proper process of convergence within ERM-2.

The next 30 months will also see at least two rounds of EMU convergence reports, in 2010 and 2012, with others on demand in 2011. While the Lisbon Treaty does not alter the convergence criteria in any way, it does add the additional step of a recommendation from the Eurogroup to the Council prior to any Council Decision on abrogating derogations. This places a great deal of emphasis on our assessment of convergence, and will put the spotlight on our commitment to pursuing the process of euro area enlargement under the right conditions. We will need to be clear and consistent in the principles we apply (as we always have been), as well as transparent in our procedures and our relations with both the Member States in question and the Council as a whole.

**Procedural arrangements and working methods**

We have made significant progress in recent years in addressing issues beyond the core business budgetary policy coordination and review of the economic situation. We have regularly adopted terms of reference on issues like labour market functioning, inflation, wage developments and exchange rates. In future, we will be much more visible as the Eurogroup, while more of our outputs will be directly translated into Council acts voted on only by the euro area.

The use of terms of reference has been a great success, as has the MTBR process. Both of these should be pursued and enhanced, so that the Eurogroup is producing more visible outputs, and so that relevant policy makers and commentators are given very clear indications of the positions of the Eurogroup.
In line with the enhanced status of the Eurogroup under the Lisbon Treaty, the Council Secretariat launched in early December a dedicated Eurogroup website, on which all formal outputs from our meetings will be posted, as well as those texts that are subsequently adopted as acts of the Council.

The inputs to our discussions have always been provided by the Commission and the ECB, while the Eurogroup Working Group has prepared our deliberations. This should of course continue. But we will need to be more aware of the onward transmission of our work and prepare ourselves accordingly. Where we are preparing positions on issues that will be discussed by the European Council, we need to ensure that we provide our contribution in a way that will best serve the discussions of the European Council. Where we are preparing formal acts of the Council, we will need to respect the appropriate legal and formal rules so as not to damage relations with the Member States outside the euro area.

I envisage pursuing the permanent open dialogue between the Eurogroup President, the ECB President and the Commissioner, as well as initiating regular contacts with the President of the European Council and regular appearances before the European Parliament. Coordination with the Council Presidency will also be paramount, to ensure the proper handling of Council preparations in the Eurogroup and Eurogroup business in the Council.

The role of the President of the Eurogroup on the international stage will need to be determined and we are reliant on a Commission initiative to launch that discussion. I would envisage a clear mandate to represent the eurozone's interests, as well as further discussion on the full range of issues of external representation - this is a difficult issue, of course, but not one from which we can or should hide.

The Eurogroup meetings are prepared by the EFC's Eurogroup Working Group, based on analytic input provided by the Commission services and the Economic Policy Committee (on structural issues). In the past, the President of the Eurogroup has relied on the excellent support of both the Eurogroup Working Group Secretariat and the Council Secretariat. Taking into account the enhanced competences of the Eurogroup, I believe that in order to ensure effective preparation of meetings and efficient follow-up, the President of the Eurogroup should have access to a dedicated secretariat and that the Eurogroup Working Group and Council Secretariats should be endowed with additional human resources.

I would like to end on a personal note by expressing my great appreciation for the strong spirit of support and cooperation in which all colleagues have engaged in the work of the
Eurogroup. We face very challenging times ahead, with issues that will certainly test the limits of our willingness and our capacity to act in the collective interests of the eurozone.

A positive commitment to collective endeavour will be essential to our success in shaping both policies and governance for the future. I am very confident that you share my commitment to tackle the issues we face in an even stronger spirit of cooperation, in recognition of the common interest we share and the common goal of ensuring a strong and prosperous euro area.

I am looking forward to a fruitful exchange of views on these strategic issues of particular relevance for the governance and policies of the euro area at our forthcoming meeting on Monday, 18 January 2010.

Yours sincerely,

Jean-Claude Juncker
Prime Minister,
Minister for the Treasury