

## **EURO SUMMIT STATEMENT**

1. Over the last three years, we have taken unprecedented steps to combat the effects of the world-wide financial crisis, both in the European Union as such and within the euro area. The strategy we have put into place encompasses determined efforts to ensure fiscal consolidation, support to countries in difficulty, and a strengthening of euro area governance leading to deeper economic integration among us and an ambitious agenda for growth. At our 21 July meeting we took a set of major decisions. The ratification by all 17 Member States of the euro area of the measures related to the EFSF significantly strengthens our capacity to react to the crisis. Agreement by all three institutions on a strong legislative package within the EU structures on better economic governance represents another major achievement. The introduction of the European Semester has fundamentally changed the way our fiscal and economic policies are co-ordinated at European level, with co-ordination at EU level now taking place before national decisions are taken. The euro continues to rest on solid fundamentals.
2. Further action is needed to restore confidence. That is why today we agree on a comprehensive set of additional measures reflecting our strong determination to do whatever is required to overcome the present difficulties and take the necessary steps for the completion of our economic and monetary union. We fully support the ECB in its action to maintain price stability in the euro area.

### ***Sustainable public finances and structural reforms for growth***

3. The European Union must improve its growth and employment outlook, as outlined in the growth agenda agreed by the European Council on 23 October 2011. We reiterate our full commitment to implement the country specific recommendations made under the first European Semester and on focusing public spending on growth areas.

4. All Member States of the euro area are fully determined to continue their policy of fiscal consolidation and structural reforms. A particular effort will be required of those Member States who are experiencing tensions in sovereign debt markets.
5. We welcome the important steps taken by Spain to reduce its budget deficit, restructure its banking sector and reform product and labour markets, as well as the adoption of a constitutional balanced budget amendment. Strictly implementing budgetary adjustment as planned is key, including at regional level, to fulfil the commitments of the stability and growth Pact and the strengthening of the fiscal framework by developing lower level legislation to make the constitutional amendment fully operative. Further action is needed to increase growth so as to reduce the unacceptable high level of unemployment. Actions should include enhancing labour market changes to increase flexibility at firm level and employability of the labour force and other reforms to improve competitiveness, specially extending the reforms in the service sector.
6. We welcome Italy's plans for growth enhancing structural reforms and the fiscal consolidation strategy, as set out in the letter sent to the Presidents of the European Council and the Commission and call on Italy to present as a matter of urgency an ambitious timetable for these reforms. We commend Italy's commitment to achieve a balanced budget by 2013 and a structural budget surplus in 2014, bringing about a reduction in gross government debt to 113% of GDP in 2014, as well as the foreseen introduction of a balanced budget rule in the constitution by mid 2012.

Italy will now implement the proposed structural reforms to increase competitiveness by cutting red tape, abolishing minimum tariffs in professional services and further liberalising local public services and utilities. We note Italy's commitment to reform labour legislation and in particular the dismissal rules and procedures and to review the currently fragmented unemployment benefit system by the end of 2011, taking into account the budgetary constraints. We take note of the plan to increase the retirement age to 67 years by 2026 and recommend the definition by the end of the year of the process to achieve this objective.

We support Italy's intention to review structural funds programs by reprioritising projects and focussing on education, employment, digital agenda and railways/networks with the aim of improving the conditions to enhance growth and tackle the regional divide.

We invite the Commission to provide a detailed assessment of the measures and to monitor their implementation, and the Italian authorities to provide in a timely way all the information necessary for such an assessment.

### *Countries under adjustment programme*

7. We reiterate our determination to continue providing support to all countries under programmes until they have regained market access, provided they fully implement those programmes.
8. Concerning the programme countries, we are pleased with the progress made by Ireland in the full implementation of its adjustment programme which is delivering positive results. Portugal is also making good progress with its programme and is determined to continue undertaking measures to underpin fiscal sustainability and improve competitiveness. We invite both countries to keep up their efforts, to stick to the agreed targets and stand ready to take any additional measure required to reach those targets.
9. We welcome the decision by the Eurogroup on the disbursement of the 6th tranche of the EU-IMF support programme for Greece. We look forward to the conclusion of a sustainable and credible new EU-IMF multiannual programme by the end of the year.

10. The mechanisms for the monitoring of implementation of the Greek programme must be strengthened, as requested by the Greek government. The ownership of the programme is Greek and its implementation is the responsibility of the Greek authorities. In the context of the new programme, the Commission, in cooperation with the other Troika partners, will establish for the duration of the programme a monitoring capacity on the ground, including with the involvement of national experts, to work in close and continuous cooperation with the Greek government and the Troika to advise and offer assistance in order to ensure the timely and full implementation of the reforms. It will assist the Troika in assessing the conformity of measures which will be taken by the Greek government within the commitments of the programme. This new role will be laid down in the Memorandum of Understanding. To facilitate the efficient use of the sizeable official loans for the recapitalization of Greek banks, the governance of the Hellenic Financial Stability Fund (HFSF) will be strengthened in agreement with the Greek government and the Troika.
11. We fully support the Task Force on technical assistance set up by the Commission.
12. The Private Sector Involvement (PSI) has a vital role in establishing the sustainability of the Greek debt. Therefore we welcome the current discussion between Greece and its private investors to find a solution for a deeper PSI. Together with an ambitious reform programme for the Greek economy, the PSI should secure the decline of the Greek debt to GDP ratio with an objective of reaching 120% by 2020. To this end we invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors. The Euro zone Member States would contribute to the PSI package up to 30 bn euro. On that basis, the official sector stands ready to provide additional programme financing of up to 100 bn euro until 2014, including the required recapitalisation of Greek banks. The new programme should be agreed by the end of 2011 and the exchange of bonds should be implemented at the beginning of 2012. We call on the IMF to continue to contribute to the financing of the new Greek programme.

13. Greece commits future cash flows from project Helios or other privatisation revenue in excess of those already included in the adjustment programme to further reduce indebtedness of the Hellenic Republic by up to 15 billion euros with the aim of restoring the lending capacity of the EFSF.
14. Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks.
15. As far as our general approach to private sector involvement in the euro area is concerned, we reiterate our decision taken on 21 July 2011 that Greece requires an exceptional and unique solution.
16. All other euro area Member States solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

### *Stabilisation mechanisms*

17. The ratification process of the revised EFSF has now been completed in all euro area Member States and the Eurogroup has agreed on the implementing guidelines on primary and secondary market interventions, precautionary arrangements and bank recapitalisation. The decisions we took concerning the EFSF on 21 July are thus fully operational. All tools available will be used in an effective way to ensure financial stability in the euro area. As stated in the implementing guidelines, strict conditionality will apply in case of new (precautionary) programmes in line with IMF practices. The Commission will carry out enhanced surveillance of the Member States concerned and report regularly to the Eurogroup.

18. We agree that the capacity of the extended EFSF shall be used with a view to maximizing the available resources in the following framework:

- the objective is to support market access for euro area Member States faced with market pressures and to ensure the proper functioning of the euro area sovereign debt market, while fully preserving the high credit standing of the EFSF. These measures are needed to ensure financial stability and provide sufficient ringfencing to fight contagion;
- this will be done without extending the guarantees underpinning the facility and within the rules of the Treaty and the terms and conditions of the current framework agreement, operating in the context of the agreed instruments, and entailing appropriate conditionality and surveillance.

19. We agree on two basic options to leverage the resources of the EFSF:

- providing credit enhancement to new debt issued by Member States, thus reducing the funding cost. Purchasing this risk insurance would be offered to private investors as an option when buying bonds in the primary market;
- maximising the funding arrangements of the EFSF with a combination of resources from private and public financial institutions and investors, which can be arranged through Special Purpose Vehicles. This will enlarge the amount of resources available to extend loans, for bank recapitalization and for buying bonds in the primary and secondary markets.

20. The EFSF will have the flexibility to use these two options simultaneously, deploying them depending on the specific objective pursued and on market circumstances. The leverage effect of each option will vary, depending on their specific features and market conditions, but could be up to four or five.

21. We call on the Eurogroup to finalise the terms and conditions for the implementation of these modalities in November, in the form of guidelines and in line with the draft terms and conditions prepared by the EFSF.
22. In addition, further enhancement of the EFSF resources can be achieved by cooperating even more closely with the IMF. The Eurogroup, the Commission and the EFSF will work on all possible options.

### ***Banking system***

23. We welcome the agreement reached today by the members of the European Council on bank recapitalisation and funding (see Annex 2).

### ***Economic and fiscal coordination and surveillance***

24. The legislative package on economic governance strengthens economic and fiscal policy coordination and surveillance. After it enters into force in January 2012 it will be strictly implemented as part of the European Semester. We call for rigorous surveillance by the Commission and the Council, including through peer pressure, and the active use of the existing and new instruments available. We also recall our commitments made in the framework of the Euro Plus Pact.
25. Being part of a monetary union has far reaching implications and implies a much closer coordination and surveillance to ensure stability and sustainability of the whole area. The current crisis shows the need to address this much more effectively. Therefore, while strengthening our crisis tools within the euro area, we will make further progress in integrating economic and fiscal policies by reinforcing coordination, surveillance and discipline. We will develop the necessary policies to support the functioning of the single currency area.

26. More specifically, building on the legislative package just adopted, the European Semester and the Euro Plus Pact, we commit to implement the following additional measures at the national level:
- a. adoption by each euro area Member State of rules on balanced budget in structural terms translating the Stability and Growth Pact into national legislation, preferably at constitutional level or equivalent, by the end of 2012;
  - b. reinforcement of national fiscal frameworks beyond the Directive on requirements for budgetary frameworks of the Member States. In particular, national budgets should be based on independent growth forecasts;
  - c. invitation to national parliaments to take into account recommendations adopted at the EU level on the conduct of economic and budgetary policies;
  - d. consultation of the Commission and other euro area Member States before the adoption of any major fiscal or economic policy reform plans with potential spillover effects, so as to give the possibility for an assessment of possible impact for the euro area as a whole;
  - e. commitment to stick to the recommendations of the Commission and the relevant Commissioner regarding the implementation of the Stability and Growth Pact.
27. We also agree that closer monitoring and additional enforcement are warranted along the following lines:
- a. for euro area Member States in excessive deficit procedure, the Commission and the Council will be enabled to examine national draft budgets and adopt an opinion on them before their adoption by the relevant national parliaments. In addition, the Commission will monitor budget execution and, if necessary, suggest amendments in the course of the year;



- b. in the case of slippages of an adjustment programme closer monitoring and coordination of programme implementation will take place.
28. We look forward to the Commission's forthcoming proposal on closer monitoring to the Council and the European Parliament under Article 136 of the TFEU. In this context, we welcome the intention of the Commission to strengthen, in the Commission, the role of the competent Commissioner for closer monitoring and additional enforcement.
29. We will further strengthen the economic pillar of the Economic and Monetary Union and better coordinate macro- and micro-economic policies. Building on the Euro Plus Pact, we will improve competitiveness, thereby achieving further convergence of policies to promote growth and employment. Pragmatic coordination of tax policies in the euro area is a necessary element of stronger economic policy coordination to support fiscal consolidation and economic growth. Legislative work on the Commission proposals for a Common Consolidated Corporate Tax Base and for a Financial Transaction Tax is ongoing.

### *Governance structure of the euro area*

30. To deal more effectively with the challenges at hand and ensure closer integration, the governance structure for the euro area will be strengthened, while preserving the integrity of the European Union as a whole.
31. We will thus meet regularly - at least twice a year- at our level, in Euro Summits, to provide strategic orientations on the economic and fiscal policies in the euro area. This will allow to better take into account the euro area dimension in our domestic policies.
32. The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester. It will rely on a stronger preparatory structure.

33. More detailed arrangements are presented in Annex 1 to this paper.

*Further integration*

34. The euro is at the core of our European project. We will strengthen the economic union to make it commensurate with the monetary union.

35. We ask the President of the European Council, in close collaboration with the President of the Commission and the President of the Eurogroup, to identify possible steps to reach this end. The focus will be on further strengthening economic convergence within the euro area, improving fiscal discipline and deepening economic union, including exploring the possibility of limited Treaty changes. An interim report will be presented in December 2011 so as to agree on first orientations. It will include a roadmap on how to proceed in full respect of the prerogatives of the institutions. A report on how to implement the agreed measures will be finalised by March 2012.

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## Ten measures to improve the governance of the euro area

There is a need to strengthen economic policy coordination and surveillance within the euro area, to improve the effectiveness of decision making and to ensure more consistent communication. To this end, the following ten measures will be taken, while fully respecting the integrity of the EU as a whole:

1. There will be regular Euro Summit meetings bringing together the Heads of State or government (HoSG) of the euro area and the President of the Commission. These meetings will take place at least twice a year, at key moments of the annual economic governance circle; they will if possible take place after European Council meetings. Additional meetings can be called by the President of the Euro Summit if necessary. Euro Summits will define strategic orientations for the conduct of economic policies and for improved competitiveness and increased convergence in the euro area. The President of the Euro Summit will ensure the preparation of the Euro Summit, in close cooperation with the President of the Commission.
2. The President of the Euro Summit will be designated by the HoSG of the euro area at the same time the European Council elects its President and for the same term of office. Pending the next such election, the current President of the European Council will chair the Euro Summit meetings.
3. The President of the Euro Summit will keep the non euro area Member States closely informed of the preparation and outcome of the Summits. The President will also inform the European Parliament of the outcome of the Euro Summits.

4. As is presently the case, the Eurogroup will ensure ever closer coordination of the economic policies and promoting financial stability. Whilst respecting the powers of the EU institutions in that respect, it promotes strengthened surveillance of Member States' economic and fiscal policies as far as the euro area is concerned. It will also prepare the Euro Summit meetings and ensure their follow up.
5. The President of the Eurogroup is elected in line with Protocol n°14 annexed to the Treaties. A decision on whether he/she should be elected among Members of the Eurogroup or be a full-time President based in Brussels will be taken at the time of the expiry of the mandate of the current incumbent. The President of the Euro Summit will be consulted on the Eurogroup work plan and may invite the President of the Eurogroup to convene a meeting of the Eurogroup, notably to prepare Euro Summits or to follow up on its orientations. Clear lines of responsibility and reporting between the Euro Summit, the Eurogroup and the preparatory bodies will be established.
6. The President of the Euro Summit, the President of the Commission and the President of the Eurogroup will meet regularly, at least once a month. The President of the ECB may be invited to participate. The Presidents of the supervisory agencies and the EFSF CEO / ESM Managing Director may be invited on an ad hoc basis.
7. Work at the preparatory level will continue to be carried out by the Eurogroup Working Group (EWG), drawing on expertise provided by the Commission. The EWG also prepares Eurogroup meetings. It should benefit from a more permanent sub-group consisting of alternates/officials representative of the Finance Ministers, meeting more frequently, working under the authority of the President of the EWG.
8. The EWG will be chaired by a full-time Brussels-based President. In principle, he/she will be elected at the same time as the chair of the Economic and Financial Committee.

9. The existing administrative structures (i.e. the Council General Secretariat and the EFC Secretariat) will be strengthened and co-operate in a well coordinated way to provide adequate support to the Euro Summit President and the President of the Eurogroup, under the guidance of the President of the EFC/EWG. External expertise will be drawn upon as appropriate, on an ad hoc basis.
  
  10. Clear rules and mechanisms will be set up to improve communication and ensure more consistent messages. The President of the Euro Summit and the President of the Eurogroup shall have a special responsibility in this respect. The President of the Euro Summit together with the President of the Commission shall be responsible for communicating the decisions of the Euro Summit and the President of the Eurogroup together with the ECFIN Commissioner shall be responsible for communicating the decisions of the Eurogroup.
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*Consensus on banking package*

1. Measures for restoring confidence in the banking sector (banking package) are urgently needed and are necessary in the context of strengthening prudential control of the EU banking sector. These measures should address:
  - a. The need to ensure the medium-term funding of banks, in order to avoid a credit crunch and to safeguard the flow of credit to the real economy, and to coordinate measures to achieve this.
  - b. The need to enhance the quality and quantity of capital of banks to withstand shocks and to demonstrate this enhancement in a reliable and harmonised way.

*Term funding*

2. Guarantees on bank liabilities would be required to provide more direct support for banks in accessing term funding (short-term funding being available at the ECB and relevant national central banks), where appropriate. This is also an essential part of the strategy to limit deleveraging actions.
3. A simple repetition of the 2008 experience with full national discretion in the setting-up of liquidity schemes may not provide a satisfactory solution under current market conditions. Therefore a truly coordinated approach at EU-level is needed regarding entry criteria, pricing and conditions. The Commission should urgently explore together with the EBA, EIB, ECB the options for achieving this objective and report to the EFC.

### *Capitalisation of banks*

4. **Capital target:** There is broad agreement on requiring a significantly higher capital ratio of 9 % of the highest quality capital and after accounting for market valuation of sovereign debt exposures, both as of 30 September 2011, to create a temporary buffer, which is justified by the exceptional circumstances. This quantitative capital target will have to be attained by 30 June 2012, based on plans agreed with national supervisors and coordinated by EBA. This prudent valuation would not affect the relevant financial reporting rules. National supervisory authorities, under the auspices of the EBA, must ensure that banks' plans to strengthen capital do not lead to excessive deleveraging, including maintaining the credit flow to the real economy and taking into account current exposure levels of the group including their subsidiaries in all Member States, cognisant of the need to avoid undue pressure on credit extension in host countries or on sovereign debt markets.
5. **Financing of capital increase:** Banks should first use private sources of capital, including through restructuring and conversion of debt to equity instruments. Banks should be subject to constraints regarding the distribution of dividends and bonus payments until the target has been attained. If necessary, national governments should provide support, and if this support is not available, recapitalisation should be funded via a loan from the EFSF in the case of Eurozone countries.

### *State Aid*

6. Any form of public support, whether at a national or EU-level, will be subject to the conditionality of the current special state aid crisis framework, which the Commission has indicated will be applied with the necessary proportionality in view of the systemic character of the crisis.
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