



EUROPEAN CENTRAL BANK

EUROSYSTEM

*COURTESY TRANSLATION*

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### **Questions related to the governance of the euro area**

Dear Mr Mölzer,

Thank you for your letter, which was sent to me by Ms Bowles, Chairperson of the Economic and Monetary Affairs Committee, on 11 May 2010.

Your letter addresses a range of important questions, all of which are closely linked to the agenda covered by the Task Force on Economic Governance, which was established by the European Council at its meeting on 25-26 March 2010 and is chaired by the President of the European Council. I myself participate in the Task Force on behalf of the ECB. The ECB has put forward a number of proposals to reinforce economic governance in the euro area, which are published on the website<sup>1</sup>.

First, it is paramount that surveillance over budgetary policies is strengthened and that the prevention and correction of excessive deficits and debts is made more effective. To that end, the euro area dimension of fiscal policy surveillance needs to be enhanced by strengthening the *ex ante* discussions in the Eurogroup and making the Eurogroup the guardian of fiscal sustainability. The implementation of rules and procedures must be enhanced by increasing the quasi-automaticity of EDP procedures and steps. The independence of fiscal surveillance should also be strengthened e.g. through the creation of an independent fiscal agency, preferably within the Commission, to monitor and assess the euro area countries' fiscal policies. The surveillance processes applied to Member States could be differentiated according to their fiscal performance. Finally, the implementation of sanctions must be strengthened in case of non-compliance, and new types of sanctions could be created.

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<sup>1</sup> <http://www.ecb.europa.eu/home/html/index.en.html>

Second, recent experience also shows that there is an urgent need to put in place a mechanism for the surveillance of competitiveness developments in the euro area. The surveillance framework needs to allow for targeted and differentiated surveillance and follow-up, and should focus in particular on countries which experience significant competitiveness losses. These countries should be subject to increasing intrusiveness of reporting, policy recommendations, compliance requirements, public peer pressure and graduated financial steps to encourage compliance. A transparent and effective trigger mechanism should be introduced to determine the intensity of vulnerabilities and surveillance. This mechanism should be based on national competitiveness measures and other supporting indicators relating to the private and public sectors.

Against this background, I would like to elaborate further on the specific issues raised in your letter.

First, euro area countries have contributed to the financial support for Greece within the framework of a joint EU/IMF programme. This programme has been agreed on the basis of an economic and financial adjustment plan adopted by the Greek government. This plan will help Greece to re-establish both its macroeconomic viability and the longer-term sustainability of its public finances. It will restore competitiveness and macroeconomic stability and safeguard financial stability. The implementation of the programme is being monitored closely and the phased disbursement of the loan is subject to strict conditions. The Greek authorities have already shown their commitment to this policy by implementing strong corrective measures in the first half of 2010. In the annex you will find the statement published on 17 June 2010 by the European Commission, ECB and IMF on the interim review mission to Greece.

Second, as regards the fiscal policy framework, this crisis has clearly exposed weaknesses in current arrangements. These weaknesses need to be corrected. The Stability and Growth Pact needs to be reinforced and rigorously applied, both in letter and in spirit. Where existing provisions are insufficient, new mechanisms need to be introduced.

The Treaty does not envisage a country leaving Economic and Monetary Union. Solidarity and coherent action at the European level are essential to alleviating the current tensions. But solidarity relies on mutual responsibility. Without it, solidarity is not sustainable.

Yours sincerely,

[signed]

Jean-Claude Trichet

Encl.

## *ANNEX*

### **PRESS RELEASE - 17 June 2010**

#### **Statement by the EC, ECB, and IMF on the Interim Review Mission to Greece**

Staff teams from the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF) visited Athens during June 14-17 to follow up on recent developments and implementation of policies under the economic programme for Greece.

While the mission did not undertake a comprehensive review at this time, its discussions suggest that the programme is on track and that policies are being implemented as agreed:

- **Fiscal developments** are positive with central government revenues coming in closely as expected and with firm expenditure control in the state budget. Based on preliminary cash data, through end-May, the state budget deficit was lower than was projected in the programme. A final assessment would have to take account of developments outside central government, for which complete information is not available at this time.
- The **pension reform** is advanced and agreement has been reached on many key parameters as envisaged in the memorandum of understanding. The authorities are conducting the required projections to assess the contribution that pension reform will make to improve the long-term sustainability of public finances.
- Other **structural reforms** are also progressing, including in the areas of local administration, privatisation, labour market, and tax administration.
- On the **financial sector**, good progress is being made toward the establishment of the Financial Stability Fund. Liquidity in the banking sector remains adequate.

**Next steps:** The three teams will return to Athens toward the end of July to conduct a comprehensive review under the programme, including an assessment of progress relative to quantitative targets and benchmarks for end-June. This will be the first formal review under the programme. Satisfactory completion of this review would enable Greece to make the second drawing under the programme.