BUSINESSEUROPE

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BUSINESSES' PLAN FOR REINFORCING THE EURO

The European business community believes that safeguarding and strengthening the euro is fundamental to the future economic prosperity and social cohesion of our continent.

Euro area leaders need to give greater urgency to decisive actions which can safeguard the euro. Leaders need to strengthen the overall architecture of the monetary union, including providing a commitment to budgetary union. The implementation of long overdue structural reforms in their own economies is also needed to improve fiscal sustainability and competitiveness and underpin the long-term credibility of the euro.

The single currency, by eliminating exchange rate risks and improving price transparency, has increased trade, competition and investment between euro area economies. At the same time, households and businesses alike have benefited from the European Central Bank's ability to deliver unprecedented price stability.

Even for those EU countries which are not euro area members, its future success is essential; the euro area accounts for over half of exports from these economies, alongside strong investment and financial linkages.

Only by securing the Euro can Europe play a leading role in the global economy, deliver growth and jobs to its 500 million citizens, and meet the many challenges of the 21st century with confidence and optimism.

We need to use all means to support the Euro

Reducing recent financial market instability means leaders demonstrating their commitment to using all feasible means to support the Euro:

- The **European Financial Stability Facility** should provide conditional support to Member States experiencing liquidity problems until the **European Stability Mechanism (ESM)** is developed into a politically independent **European Monetary Fund** open to all EU 27 Member States.

- The **ECB should continue to assist monetary** and financial stability by:

  a) Providing liquidity to the banking sector in its role as lender of last resort, which is essential to supporting productive investment in the euro area economy; and

  b) for a limited period of time until other means are in place, engaging in sovereign debt markets to the extent it believes necessary to stabilise the Euro.

- In addition, Euro Area leaders should ask the **IMF** to provide further assistance.

All support must be strictly conditional on Member States simultaneously undertaking further structural reforms and fiscal consolidation.

Structural reforms and fiscal consolidation in all Member States are key for sustainable growth in Europe and ensuring the long-term credibility of the euro area

The present difficulties in the euro area ultimately stem from the fact that weaknesses in euro area economic governance allowed short-term growth based on borrowing, instead of long-term growth underpinned by essential reforms to public finances, product and labour markets. As a result, rather than adjustment between euro area members coming through changes in productivity or wages it has come through rising inflation and growing current account deficits.

By making good on their commitment at the last European Council, all Member States can provide an immediate boost to confidence to assist growth. Product market liberalisation and labour market modernisation helps firms and individuals enter new markets, increasing competitiveness, demand and employment, while credible plans for fiscal consolidation bring down borrowing costs for both governments and private investors.

Governments must build trust in their commitment to economic reforms by subjecting themselves to strengthened governance ...

The **European Stability Mechanism (ESM)** provides a long-term crisis mechanism scheme for the euro area. By ensuring that lending is conditional on a credible adjustment plan, if necessary requiring orderly debt restructuring, financial markets will play an enhanced role in disciplining future government borrowing. We believe the ESM should be further developed into a politically independent European Monetary Fund open to all EU members.

Similarly, **clear and proportionate bank resolution rules** are essential to reduce the potential impact of bank failure on public finances and in turn reduce moral hazard, and can be particularly effective when coordinated between euro area member states.

The **full implementation of the six legislative agreements on economic governance** is also essential. The strengthened Stability and Growth Pact (SGP) is built on the crucial foundations of early prevention, greater surveillance of fiscal and macroeconomic imbalances, and a more automatic decision-making process in the Council. Ensuring independent compilation of statistics, with sanctions in case of misreporting, and introducing debt brakes into national constitutions before the end of 2012 are also necessary.

The **European semester** complements this package by enhancing coordination of national budgets. However, we need to see greater ambition and commitment from Member States in their National Reform Programmes, accompanied by robust country-specific recommendations from the Commission.

... but further reform is required to strengthen economic union

We welcome the Commission's recent proposals to improve budgetary surveillance. In particular, **independent fiscal councils and independent macroeconomic forecasts** can enhance national debate and the credibility of government budgetary plans. Voting rules should be strengthened to make it tougher for the Council to overrule the Commission's recommendations.

In addition, BUSINESSEUROPE supports the appointment of Olli Rehn as Vice-President of the Commission and **Commissioner for Economic and Monetary Affairs and the Euro**. The role should be that of a powerful advocate for fiscal consolidation and the promotion and enforcement of structural reforms, independent of national considerations.

In all new proposals, we believe that non euro area members should have the option to apply the same rules as euro members, on a voluntary basis as in the case of the Euro Plus Pact.

Eurobonds are not a means to solve the current problems but, by increasing liquidity for investors, offer the potential for lower borrowing costs for governments across the entire euro area. The adoption of a scheme, provided it improves rules and incentives for fiscal discipline, may be a long-term aspiration, conditional upon:

a) a transfer of significant budgetary authority from the national to the European level,

b) euro area economies showing greater convergence, and ensuring their public finance positions are in genuine adherence with the Maastricht criteria.

Completion of the single market is needed to boost growth and competitiveness

We need to see a step change in leaders' commitment to completing the single market to ensure it fulfils its vast potential as a force for convergence between euro area members and for growth across the EU. In particular:

- **A more integrated labour market** would allow labour mobility to act as an adjustment channel between member states; only 0.1% of the EU workforce moves country in a given year for work, compared with over 3% between US states.

- **Cross-border services** account for just 5% of EU GDP, compared to 17% for goods. Implementation of the Services Directive alone has the potential to raise GDP by 1.5%, but we need to go much further than this.

Above all the Commission needs to get serious in ensuring that all legislation is firstly subject to comprehensive competitiveness checks to ensure maximum impact on growth and jobs, and secondly, incorporated into national law within a short and strictly defined timeframe.

Europe is facing severe challenges, with a real risk that more countries will fall back into recession in 2012 unless decisive and urgent action is taken. But the potential benefits from reform are also huge; by setting in place the economic governance and structural reforms outlined we can significantly boost long-term growth and competitiveness, helping millions of people get back to work.

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Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Portugal	Rep. of San Marino	Romania
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