EUROPEAN COUNCIL Brussels, 9 December 2011

STATEMENT BY THE EURO AREA HEADS OF STATE OR GOVERNMENT

The European Union and the euro area have done much over the past 18 months to improve economic governance and adopt new measures in response to the sovereign debt crisis. However, market tensions in the euro area have increased, and we need to step up our efforts to address the current challenges. Today we agreed to move towards a stronger economic union. This implies action in two directions:

- a new fiscal compact and strengthened economic policy coordination;

- the development of our stabilisation tools to face short term challenges.

A reinforced architecture for Economic and Monetary Union

1. The stability and integrity of the Economic and Monetary Union and of the European Union as a whole require the swift and vigorous implementation of the measures already agreed as well as further qualitative moves towards a genuine "fiscal stability union" in the euro area. Alongside the single currency, a strong economic pillar is indispensable. It will rest on an enhanced governance to foster fiscal discipline and deeper integration in the internal market as well as stronger growth, enhanced competitiveness and social cohesion. To achieve this objective, we will build on and enhance what has been achieved in the past 18 months: the enhanced Stability and Growth Pact, the implementation of the European Semester starting this month, the new macro-economic imbalances procedure, and the Euro Plus Pact.

2. With this overriding objective in mind, and fully determined to overcome together the current difficulties, we agreed today on a new "fiscal compact" and on significantly stronger coordination of economic policies in areas of common interest.

3. This will require a new deal between euro area Member States to be enshrined in common, ambitious rules that translate their strong political commitment into a new legal framework.

A new fiscal compact

4. We commit to establishing a new **fiscal rule**, containing the following elements:

- General government budgets shall be balanced or in surplus; this principle shall be deemed respected if, as a rule, the annual structural deficit does not exceed 0.5% of nominal GDP.
- Such a rule will also be introduced in Member States' national legal systems at constitutional or equivalent level. The rule will contain an automatic correction mechanism that shall be triggered in the event of deviation. It will be defined by each Member State on the basis of principles proposed by the Commission. We recognise the jurisdiction of the Court of Justice to verify the transposition of this rule at national level.
- Member States shall converge towards their specific reference level, according to a calendar proposed by the Commission.
- Member States in Excessive Deficit Procedure shall submit to the Commission and the Council for endorsement, an economic partnership programme detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits. The implementation of the programme, and the yearly budgetary plans consistent with it, will be monitored by the Commission and the Council.
- A mechanism will be put in place for the *ex ante* reporting by Member States of their national debt issuance plans.

5. The **rules governing the Excessive Deficit Procedure (Article 126 of the TFEU) will be reinforced for euro area Member States**. As soon as a Member State is recognised to be in breach of the 3% ceiling by the Commission, there will be automatic consequences unless a qualified majority of euro area Member States is opposed. Steps and sanctions proposed or recommended by the Commission will be adopted unless a qualified majority of the euro area Member States is opposed. The specification of the debt criterion in terms of a numerical benchmark for debt reduction (1/20 rule) for Member States with a government debt in excess of 60% needs to be enshrined in the new provisions.

6. We **will examine swiftly the new rules proposed by the Commission on 23 November 2011** on (i) the monitoring and assessment of draft budgetary plans and the correction of excessive deficit in euro area Member States and (ii) the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area. We call on the Council and the European Parliament to rapidly examine these regulations so that they will be in force for the next budget cycle. Under this new legal framework, the Commission will in particular examine the key parameters of the fiscal stance in the draft budgetary plans and will, if needed, adopt an opinion on these plans. If the Commission identifies particularly serious non-compliance with the Stability and Growth Pact, it will request a revised draft budgetary plan.

7. For the longer term, we will continue to work on how to further deepen fiscal integration so as to better reflect our degree of interdependence. These issues will be part of the report of the President of the European Council in cooperation with the President of the Commission and the President of the Eurogroup in March 2012. They will also report on the relations between the EU and the euro area.

Stronger policy coordination and governance

8. We agree to make more active use of enhanced cooperation on matters which are essential for the smooth functioning of the euro area, without undermining the internal market.

9. We are committed to working towards a common economic policy. A procedure will be established to ensure that all major economic policy reforms planned by euro area Member States will be discussed and coordinated at the level of the euro area, with a view to benchmarking best practices.

10. Euro area governance will be reinforced as agreed at the Euro Summit of 26 October. In particular, regular Euro Summits will be held at least twice a year.

Strengthening the stabilisation tools

11. Longer term reforms such as the ones set out above must be combined with immediate action to forcefully address current market tensions.

12. The European Financial Stability Facility (EFSF) leveraging will be rapidly deployed, through the two concrete options agreed upon by the Eurogroup on 29 November. We welcome the readiness of the ECB to act as an agent for the EFSF in its market operations.

13. We agree on an **acceleration of the entry into force of the European Stability Mechanism (ESM) treaty**. The Treaty will enter into force as soon as Member States representing 90 % of the capital commitments have ratified it. Our common objective is for the ESM to enter into force in July 2012.

14. Concerning **financial resources**, we agree on the following:

- the EFSF will remain active in financing programmes that have started until mid-2013 as provided for in the Framework Agreement; it will continue to ensure the financing of the on-going programmes as needed;
- we will reassess the adequacy of the overall ceiling of the EFSF/ESM of EUR 500 billion (USD 670 billion) in March 2012;
- during the phasing in of the paid-in capital, we stand ready to accelerate payments of capital in order to maintain a minimum 15% ratio between paid-in capital and the outstanding amount of ESM issuances and to ensure a combined effective lending capacity of EUR 500 billion;
- euro area and other Member States will consider, and confirm within 10 days, the provision of additional resources for the IMF of up to EUR 200 billion (USD 270 billion), in the form of bilateral loans, to ensure that the IMF has adequate resources to deal with the crisis. We are looking forward to parallel contributions from the international community.

15. We agree on the **following adjustments to the ESM Treaty to make it more effective**:

- Concerning the **involvement of the private sector**, we will strictly adhere to the well established IMF principles and practices. This will be unambiguously reflected in the preamble of the treaty. We clearly reaffirm that the decisions taken on 21 July and 26/27 October concerning Greek debt are unique and exceptional; standardised and identical Collective Action Clauses will be included, in such a way as to preserve market liquidity, in the terms and conditions of all new euro government bonds.
- In order to ensure that the ESM is in a position to take the necessary decisions in all circumstances, **voting rules in the ESM will be changed to include an emergency procedure**. The mutual agreement rule will be replaced by a qualified majority of 85 % in case the Commission and the ECB conclude that an urgent decision related to financial assistance is needed when the financial and economic sustainability of the euro area is threatened.[1]

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[1] subject to confirmation by Finnish parliament.

16. We welcome the measures taken by Italy; we also welcome the commitment of the new Greek government, supported by all parties, to fully implement its programme, as well as the significant progress achieved by Ireland and Portugal in implementing their programmes.

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Some of the measures described above can be decided through secondary legislation. The euro area Heads of State or Government consider that the other measures should be contained in primary legislation. Considering the absence of unanimity among the EU Member States, they decided to adopt them through an international agreement to be signed in March or at an earlier date. The objective remains to incorporate these provisions into the treaties of the Union as soon as possible. The Heads of State or Government of Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania indicated their intention to join in the process. The Heads of State or Government of the Czech Republic and Sweden are consulting their Parliaments before taking a decision.