



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Vice-President

Mr. José Manuel Barroso  
President of the European Commission  
European Commission  
1049 Brussels  
Belgium

Frankfurt, 15 January 2010

Dear President,

**European Commission public consultation on the future EU 2020 Strategy**

In response to the European Commission's public consultation, I am pleased to submit to you the contribution of the Eurosystem, which has been adopted by the Governing Council on 14 January 2010.

Yours sincerely,

Lucas Papademos

Encl.

**CONTRIBUTION OF THE EUROSYSTEM  
of 14 January 2010  
to the public consultation of the European Commission  
on the future “EU 2020” strategy**

**Introduction**

The Eurosystem welcomes this opportunity to contribute to the public consultation launched by the European Commission on the future EU 2020 strategy, the successor to the current Lisbon Strategy. The Eurosystem shares the ambition to address the prevailing structural challenges faced by the EU economy. The economic and financial crisis that has hit the European economies has again led to high unemployment, partly undoing earlier successes, has reduced the growth potential of the European economy for some time to come and has brought to the fore the vulnerabilities and risks that are emerging from macroeconomic imbalances. The crisis has pointed to important lessons to be learnt with regard to the links between financial imbalances, asset prices and macroeconomic stability. Undoing the effects of the crisis and steering the EU economy towards a higher level of sustainable growth, so as to improve the living standards of European citizens, requires an EU 2020 strategy that provides for a greater flexibility in the EU economy and an enhanced governance framework in order to be successful.

**Objectives and scope**

To address the structural challenges of the European economy, the Eurosystem is of the opinion that the focus of the EU 2020 strategy should remain on raising potential growth and creating high levels of employment through well-functioning labour and product markets, sound financial systems and sustainable fiscal policies. The Commission consultation paper emphasises a number of issues that are key to such a strategy: the establishment of efficient and flexible labour markets, including the review of social security systems and the promotion of lifelong learning; the need to strengthen the internal market and to create a level playing field for firms and consumers; and the importance of research and innovation for stimulating productivity gains. The Eurosystem agrees that sound institutions supporting appropriate wage-setting, facilitating

job mobility and matching in labour markets and creating incentives to work are required to attain high levels of employment and labour participation. At the same time, policies that enhance competition and innovation are urgently needed to speed up restructuring and investment, and to create the productivity gains necessary to overcome past weaknesses. This would allow European countries to remain competitive in an increasingly interconnected, global economy. The Eurosystem shares the view that a strict implementation of the Stability and Growth Pact is essential to ensure the sustainability of public finances. At the same time, in view of the demographic changes, the EU 2020 strategy needs to continue to focus on ensuring the sustainability of pension systems. All structural reform measures need to be mutually reinforcing and should be pursued in a consistent manner that safeguards sound budgetary positions at all times.

The Eurosystem has taken note of the comprehensive scope of the consultation paper, which outlines different elements of a path towards a sustainable social market economy building on greener and knowledge-based growth. Social and environmental objectives are very relevant for a sustainable and modern economy, and the promotion of energy efficiency should help to reduce the costs of energy price volatility. Both of these objectives are fully compatible with a strategy that focuses on jobs and potential growth, and their integration into the EU 2020 strategy should not dilute the latter. Indeed, raising potential growth and creating employment in a sustainable manner are the most effective contributions that the strategy can make to social inclusion and the improvement of the living standards of European citizens and to achieving a highly competitive social market economy, as laid down in the Treaty on European Union. Such an economy will create the value added necessary to pursue, in a sustainable manner, the social and environmental objectives outlined. Conversely, social and environmental policies should be designed in a cost-effective manner and should rely, as far as possible, on market-based instruments, with full consideration being given to their growth and budgetary implications.

## **Governance**

In order to be effective, an ambitious strategy must be matched by an appropriate governance structure. The Eurosystem welcomes the role that the European Council will play in the new EU 2020 strategy to ensure that the latter's objectives are endorsed and owned at the highest political level. Given the strategy's objectives, and the specific function assigned to the ECOFIN Council

with respect to the coordination and surveillance of economic policies, the ECOFIN Council should continue to play a central role in preparing contributions relating to the EU 2020 strategy for the European Council.

For purposes of attaining the objectives of the EU 2020 strategy, the Eurosystem fully supports the use of a limited number of properly framed targets to act both as a device for communication on key political priorities and as a tool for directing policy-makers towards concrete action. This would also facilitate the monitoring of Member States' progress towards the fulfilment of the strategy's objectives. Targets should be well-defined, clearly linked to the strategy's objectives and built on the achievements of the Lisbon Strategy. National targets should be ambitious and consistent with those set at the EU level. Regular reporting on reform efforts by Member States is necessary to ensure an effective monitoring of progress at the national level. The setting of targets and the assessment of countries' achievements should be made in relation to the best-performing countries of the world.

Delivering precise and targeted recommendations under the strategy, which are addressed to all Member States, also those that are performing relatively well, will be essential to provide impetus for reform. In this context, it also seems desirable to set ambitious targets for the functioning of the internal market. Moreover, the Eurosystem sees a need for a further strengthening of country surveillance in the Eurogroup, which should include a regular review of national competitiveness developments and of imbalances and vulnerabilities within the euro area. In cases of major policy failure, or for the purposes of ensuring the proper functioning of EMU, appropriate use should be made of available Treaty-based instruments in order to make country-specific recommendations more binding.

Finally, the Eurosystem supports the view that improved communication with national audiences on the new EU 2020 strategy and on the benefits of structural reforms is essential to strengthen the incentives for national policy-makers to implement the necessary reforms. In this regard, the EU should establish a simple and transparent scheme for annual reporting on country performance in relation to the objectives of the EU 2020 strategy, especially as regards sustainable economic growth and employment. Such reporting would be instrumental in communicating the benefits and importance of reforms to citizens and would raise the profile of the recommendations made to individual Member States.

The Eurosystem looks forward to discussing the Commission proposals on the EU 2020 strategy in the appropriate fora in early 2010, with a view to reaching

agreement on the adoption of ambitious conclusions at the spring 2010 European Council.