



# The Euro Plus Pact

How Integration into the EU Framework can Give New Momentum for Structural Reforms in the Euro Area

European Political  
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The Euro Plus Pact originated at the height of the crisis as one of the measures to stabilise the euro area. Driven by French and German concerns that at least part of the financial and economic fallout was due to underlying factors that had hitherto not featured prominently in the crisis response – such as Unit Labour Costs and employment rates – the Euro Plus Pact was conceived as an intergovernmental solution to increase fiscal and economic discipline in the Member States. After integration in the euro area governance framework – and guided by the largely ineffective Open Method of Coordination – it has since lost traction with Member States and suffers from a lack of political ownership. The case for reviving it is nevertheless strong, and rests on two premises: 1) as the pressures of the crisis have abated, it is crucial that Member States do not become complacent and miss the opportunity afforded by low oil prices and exchange rate, as well as quantitative easing by the European Central Bank; 2) the Pact can serve as a vehicle for stronger Member State engagement in – and ownership of – the overall economic governance process. The Euro Plus Pact is an untapped resource for the euro area to achieve convergence by complementing other instruments, such as the European Semester, and cover areas where the Treaty does not specify provisions, such as the labour market. The Euro Plus Pact was concluded on 25 March 2011, with all seventeen euro zone members as signatories – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain – as well as six additional countries: Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. In the meantime, Latvia and Lithuania have become members of the euro area.

## Untapped Potential

The Euro Plus Pact addressed key policy areas but it largely failed to incentivise structural reforms across the board and over time. Nonetheless, many Member States have undertaken significant reform efforts in past years, prompted primarily by market pressure. The overriding challenge is how to rekindle the appetite for these reforms that remain necessary now that intense market scrutiny has abated.

## Member State Ownership is Key

A fundamental lesson from the reform of Economic and Monetary Union governance is that coordination needs to span across policy areas, with better connectivity between different fields and stronger safety valves against possible risks. The process needs to combine sufficient oversight from the EU level as well as Member State ownership.

## Momentum for Relaunch

The Euro Plus Pact is largely dormant and receives little attention in Member States, as evidenced by poor take-up in the National Reform Programmes. However, the case for reviving the Pact is strong given that it has been agreed by all euro area countries as the framework through which to keep track of structural reforms. The guiding idea behind the Euro Plus Pact of encouraging greater national reform efforts in a fashion that creates a positive-sum, remains valid and innovative.

## Anchored in the European Semester

To become relevant, the Pact needs to be firmly integrated into the European Semester and into the framework of EU law, to provide better incentives for Member State engagement. The overall positioning needs to be recast and incentives drawn up.

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## 1. The Challenge of Addressing Competitiveness in the Midst of an Economic Meltdown

The Euro Plus Pact grew out of a Franco-German proposal in February 2011 for a so-called “Competitiveness Pact” (see page 3: The Euro Plus Pact: Key Facts). **As an intergovernmental initiative, it reflected the dominant perception in some capitals of the need for a more rigorous approach towards economic and financial imbalances.**

At its inception, it was an ambitious strategy to mobilise both Member States and the Commission to accelerate and incentivise structural reforms. The initial idea was to “achieve a new quality of economic policy coordination”<sup>1</sup>, to improve competitiveness and avoid harmful divergences in performance. Despite its broad scope and its membership open to non-euro area countries, **the Euro Plus Pact has often been criticised as being excessively focused on differences in cost competitiveness in the euro area.** Since in reality it was primarily capital movements that led to the overheating of labour markets, the Euro Plus Pact was seen as targeting “the messenger of economic imbalances rather than the underlying causes”.<sup>2</sup>

Nonetheless, monitoring economic performance on an ongoing basis is vital for the European Union in general and the euro area in particular. The Euro Plus Pact analyses key indicators that are crucial to evaluate progress on structural reforms, such as Unit Labour Costs, sustainability of public finances and the employment rate. But, **given the complex causality of economic processes in a common currency area, the scope of reforms covered needs to be broadened with closer coordination across policy areas.** Looking back at the first four years of the Euro Plus Pact, it appears that the overall approach was disjointed, replicating the traditional silo structure of economic management. This meant that problems were treated in an *ad hoc* fashion, without full grasp of their interdependence. While this may have been a necessity in the midst of the crisis, the improving economic situation at the moment allows for a more comprehensive and sustainable process.

### Box I: Competitiveness Loss More Strongly Associated with Capital Flows

Evidence shows that the correlation between changes in export market shares (as reported by the Eurostat Macroeconomic Imbalance Procedure Scoreboard) against the change of nominal Unit Labour Costs (ULCs) is rather weak (Figure 1). On the other hand, there is a strong positive correlation between the increase in nominal Unit Labour Costs and the strength of domestic demand (Figure 2).

### Graph 1: Nominal Unit Labour Costs and Export Markets

Percentage change, 2002-2007



Source: Vinhas de Souza, L., “Euro Area Periphery: Structural Reforms Have Significantly Improved External Imbalances, But Full Resolution May Still Take Years”, Moody’s, 2012.

### Graph 2: Nominal Unit Labour Costs and Domestic Demand

Percentage change, 1999-2007



Source: Vinhas de Souza, L., “Euro Area Periphery: Structural Reforms Have Significantly Improved External Imbalances, But Full Resolution May Still Take Years”, Moody’s, 2012.

Importantly, **domestic demand in the “periphery” of the euro area in the run-up to the sovereign debt crisis was largely financed by capital flows (surplus savings) from the euro area core.** Thus, the deterioration of the periphery countries’ external positions was at least partially rooted in dissaving by the private sector, which chose to use the large financing flows from core euro area economies to finance domestic spending, frequently in non-productive ways.<sup>3</sup>

## 2. Bottom-up Dynamic and National Buy-in is Key for Success

**The key idea of the Euro Plus Pact is to incentivise Member States to undertake reforms in areas that fall under their national competence.**

The Pact rightly defines these as crucial for the future of the common currency. In spite of a number of efforts aimed at creating solutions in areas such as banking supervision at the European level, the future of the euro rests squarely on the ability to bring to life mutually reinforcing national reform commitments: **the implementation of reforms in a Member State would not only reinforce the effectiveness of other reforms in that country, but across the euro area as a whole.**

In line with the original concept, the selection of the specific policy measures for implementation has remained the responsibility for each country, with “a strong central role for the Commission in the monitoring of the implementation of the commitments”.<sup>4</sup> The commitments were to be included in the National Reform Programmes and Stability Programmes, meant to be subsequently assessed by the Council, the Commission and the Eurogroup in the context of the European Semester.

Four years into its implementation, there is a clear ownership deficit on the part of the Member States which see the Euro Plus Pact as part of a broader set of EU-level obligations, without recognising its special role. In fact, the Pact was meant to encourage Member States to undertake more ambitious reforms in a way that creates positive-sum at the EU level. Hence, **the main weakness of the Pact lies in the insufficient recognition of its bottom-up character and lack of incentives for Member States to take action.**

## 3. Integrating the Euro Plus Pact in the EU Framework

Considerable effort would be needed to revive the Euro Plus Pact. **The initiative has largely been neglected by policymakers** as the euro area governance framework developed further. There is hardly a mention of the Euro Plus Pact commitments in the latest set of National Reform Programmes, even though they were meant to be their main hub. The political traction of the Pact has been weak, with the Member States not being able to distinguish its provisions from those of other “Brussels-centred” mechanisms. No institution has provided political guidance on its implementation and no interest groups have exerted pressure to deliver on the Pact. Not surprisingly, Member States have felt no temptation to outshine others given the Pact’s legacy of the past and its lukewarm implementation.



### The Euro Plus Pact: Key Facts

- The Euro Plus Pact focuses on four priority areas: competitiveness and employment, sustainability of public finances and reinforcing financial stability. Tax coordination is also mentioned but subordinated to the others.
- Endorsed by the Heads of State or Government at the European Council on 25 March 2011, the Euro Plus Pact grew out of a Franco-German initiative that led to a proposal for a so-called “Competitiveness Pact” in February 2011. The preparation began at the end of 2010 when economic divergences in the euro area became a source of concern. Originally conceived only for the then 17-member euro area, six non-euro area countries signed on as well: Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. At the time, the fact that also non-euro area countries joined was considered by some a success and tribute to the attractiveness of the agreement. Croatia, Czech Republic, Hungary, Sweden and the United Kingdom secured the option of signing up at a later date.
- All signatories are committed to implementing a set of reforms enforced through the so-called “Open Method of Coordination” – effectively, peer pressure. To that end, the European Commission collects and publishes various indicators that capture the progress of individual countries. The Euro Plus Pact is meant to be embedded in the new EU economic governance framework and the commitments taken therein are to be included in the National Reform Programmes of the concerned Member States.
- The Euro Plus Pact aims to further strengthen the economic pillar of the Economic and Monetary Union and achieve a new quality of policy coordination. It encourages cost competitiveness in order to reduce the likelihood of financial and economic imbalances. The underlying rationale of the Pact is that deteriorating cost competitiveness is an important factor behind the accumulation of current account deficits and financial vulnerabilities.

**The case for reviving the Euro Plus Pact rests on the continued need for structural reforms in all euro area countries.** Going forward, it must become more evident that the future governance mechanism is a two-way street in which some functions need to be performed at the EU level and others at Member State level. Some elements of this new positioning are already underway, as underlined in the communication on flexibility in the Stability and Growth Pact, which gives countries more time to bring down deficits in return for reforms or investment. In addition, the revival of the Pact would have to be part of the effort to streamline the euro area governance system with fewer and more targeted mechanisms and a genuine partnership between the Commission and Member States.

**The way to do so is to more fully integrate the Euro Plus Pact commitments in the European Semester and into the framework of EU law** (Figure 3). In the Annual Growth Survey, the Commission should identify areas where additional commitments of the Member States would be desirable. In order to avoid duplication, Member State commitments should be presented in March-April in the National Reform Programmes and Stability or Convergence Programmes in specific chapters. The commitments

should be presented to both the President of the European Council and the President of the Commission and discussed annually by the European Council. Additionally, the Commission should offer guidelines for implementation of the commitments in the Country Specific Recommendations in May. Finally, the commitments should be part of the draft budgetary plans and Economic Partnership Programmes presented in October. This way, the Euro Plus Pact would be fully integrated in the existing framework while the Member States would gain a significant co-leadership role in the entire process. At the same time, the Pact would cover complementary policy areas, ensuring convergence in the real economy of euro area countries.

Additional effort will be desirable to **make dialogue with Member States more of a two-way street**, in which the Commission assists and guides the identification and implementation of commitments, but also listens and learns from Member State experience. Based on past experience, the Commission should refrain from a “one-size-fits-all” approach and instead set overall targets rather than spelling out the minutia of each reform, allowing Member States to design them in a way that suits their national circumstances.

**Graph 3: Integrating the Europlus pact in the European Semester**



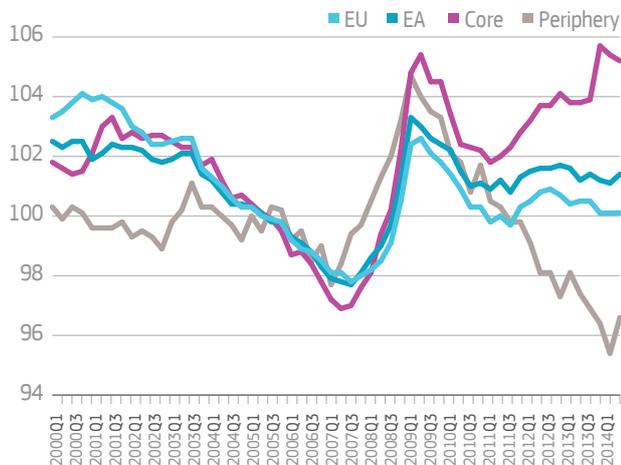
Source: [Making it happen: the European Semester](#)

## 4. Recalibrated Focus to Enhance Impact and Delivery

Competitiveness improvements in the euro area in the past few years are impressive. A number of Member States have made consistent and thorough efforts and achieved remarkable results, reducing the divergence in performance that preceded the crisis. The scale of the adjustment is revealed by the shifts in real Unit Labour Costs and in the current account balance (Figure 4 and 5).

**Graph 4: Real Unit Labour Costs**

Index, 2005=100

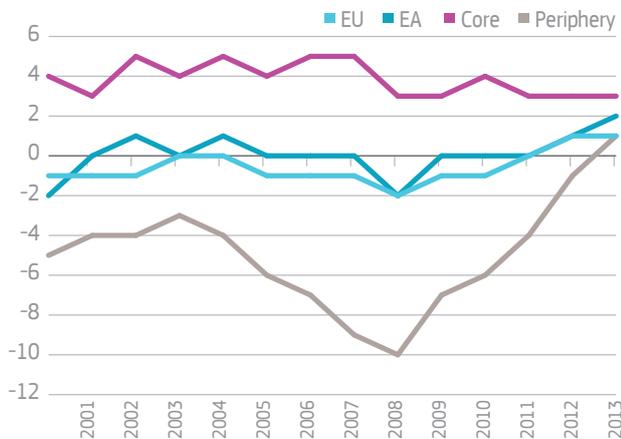


Note: Simple average for the “core”, defined as Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands. Simple average for the “periphery”, defined as Cyprus, Greece, Ireland, Italy, Portugal and Spain.

Source: [Unit labour cost - quarterly database](#), Eurostat

**Graph 5: Balance of the current account**

As a percentage of GDP



Note: Simple average for the “core”, defined as Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands. Simple average for the “periphery”, defined as Cyprus, Greece, Ireland, Italy, Portugal and Spain.

Source: [Balance of current account](#), Eurostat

These gains, however, are not necessarily structural and durable: the perception of a waning crisis lowers immediate pressure to introduce reforms, exactly at the moment when a more supportive economic situation, with lower oil prices, accommodating European Central Bank measures and higher growth would reduce the costs of implementing those.

Faithful to its original idea, the Euro Plus Pact could have a role to play in ensuring that the achievements of the past few years are sustained. **This would require a Competitiveness Check** – a system for monitoring cost competitiveness of national economies, using a benchmark that takes into account labour costs in the given Member State’s main trading partners. This system could either be Euro Plus Pact-wide and operated by the Commission or it could consist of a range of national systems with the Commission being responsible for the aggregation of the result (Box 2). In addition, the impact of capital flows should be monitored more closely through the Alert Mechanism Report, which identifies problem areas in national economies requiring further analysis in the form of an in-depth review and 11 headline indicators at the beginning of the Annual Growth Survey process in November.

At the same time, the revamped Euro Plus Pact needs to extend beyond issues of competitiveness and cover the full dimension of the Member States’ growth agendas that are relevant from the point of view of resilience of the euro area. Productivity in particular is crucial to achieving higher potential output and sustainable incomes. **A holistic resilience (rather than competitiveness) indicator could be developed** under the framework of the Euro Plus Pact to measure Member States’ progress in improving their economic performance and social cohesion.<sup>5</sup>

### Box 2: Examples of Competitiveness Councils in the euro area

#### Belgium

In 1996 (Law of 26 July 1996 on the promotion of employment and preventative measures to protect Competitiveness), Belgium introduced a law to promote employment and preserve external competitiveness vis-à-vis France, Germany, and the Netherlands, its three major trading partners. Specifically, the law requires that the growth of nominal hourly labour costs for enterprises in a period of two years should not exceed a “wage norm”: a weighted average of the projected increases in labour costs in the three neighbouring countries. The law stipulates that overruns of the wage norm should be corrected in the subsequent wage agreements.

## Ireland

The National Competitiveness Council was established in 1997. It reports to the Taoiseach on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position. Each year the NCC publishes a report benchmarking Ireland's competitiveness performance: Ireland's Competitiveness Scorecard (previously named Benchmarking Ireland's Performance) provides a comprehensive assessment of Ireland's competitiveness performance, using over 125 statistical indicators. The indicators are drawn from data sources such as OECD, Eurostat, and others. The Council also publishes Ireland's Competitiveness Challenge. The Competitiveness Challenge report focuses on the national competitiveness issues of most importance to the enterprise sector and identifies policy recommendations required to address these issues. Ireland's Competitiveness Challenge builds on the data published in Ireland's Competitiveness Scorecard.

## 5. Incentivising the Member States

The promise of the Euro Plus Pact is to give Member States a policy and comparative framework through which to articulate, incentivise and implement structural reforms. It is easier to do so in tandem with EU partners and through an EU mechanism, particularly if it comes with "carrots" on offer. For the European institutions, the case is also clear: an economic governance framework where national reform efforts are better integrated would be more likely to have an impact on the euro area that is greater than the sum of its parts.

In order to create such a virtuous, mutually reinforcing cycle, **Member States need to be politically and financially incentivised to undertake more ambitious commitments.** One European Council meeting should be devoted to the implementation of the Euro Plus Pact with Member States that lead on particular policies playing a key role ("naming and faming"). Prior to that, Member State governments could be invited to meet with the College of the

European Commission to discuss their commitments. Groups of Member States could be encouraged to work together through "policy communities", engaging both leaders and laggards in each area.

### **Financial incentives for reform should also be considered through the following three possible channels:**

- short-term solutions enabling more flexible use of the EU budget to support reforms,
- leveraging the flexibility within the existing rules of the Stability and Growth Pact clearly and explicitly towards support for reforms,
- a Euro Plus Pact-linked instrument to support specific reform efforts, which could be based on the "Convergence and Competitiveness Instrument".<sup>6</sup>

## 6. The Euro Plus Pact: Paving the Way for Future Structural Reforms

The Euro Plus Pact can help to complete the euro area governance architecture by advancing a comprehensive reform agenda and generating more Member State engagement. Both are necessary corrections to streamline and fine-tune the set of mechanisms which was created in the heat of the crisis. Better connectivity between policy areas is not only necessary to reduce risks but can also help to create synergies and augment the impact of reforms. Finally, more engagement of the Member States is needed to break away from the perception of a "Brussels-imposed" process which is seen as a burden and not a trigger for action.

Given its dormant state at the present time, the Euro Plus Pact would need to be essentially relaunched to achieve that objective but this time with clear and enduring political buy-in, as well as precise deliverables, timelines and division of labour. The key advantage of the Euro Plus Pact is that it is already agreed, it covers the areas that require most urgent attention and it is based on a bottom-up logic with co-leadership from the Member States and the Commission.

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## Further Readings:

- Briguglio, L. et al. (2009) "Conceptualizing and Measuring Economic Resilience", University of Malta.
- Dieppe, A. et al. (2012), "Competitiveness and external imbalances within the euro area", Occasional Paper Series, No. 139, European Central Bank.
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- Stephane Hallegatte, S. (2014), "Economic Resilience: Definition and Measurement", Policy Research Working Paper. 6852, World Bank.

## Notes

1. The Euro Plus Pact. Stronger Economic Policy Coordination for Competitiveness and Convergence. Annex I to European Council Conclusions, 24-25 March 2011.
2. Hubert Gabrisch and Karsten Staehr, "The Euro Plus Pact. Cost Competitiveness and External Capital Flows in the EU Countries", ECB Working Paper Series, March 2014.
3. Vinhas de Souza, L., "Euro Area Periphery: Structural Reforms Have Significantly Improved External Imbalances, But Full Resolution May Still Take Years", Moodys, 2012..
4. The Euro Plus Pact. Stronger Economic Policy Coordination for Competitiveness and Convergence. European Council Conclusions, 24-25 March 2011.
5. Briguglio et al., 2009, provides an example of how such an index could be constructed, combining both "structural" elements of an economy (for instance, its demographic profile) and those more amenable to policy decisions (like fiscal deficit).
6. [http://ec.europa.eu/economy\\_finance/articles/governance/pdf/2039\\_165\\_final\\_en.pdf](http://ec.europa.eu/economy_finance/articles/governance/pdf/2039_165_final_en.pdf).

## ANNEX

### The Euro Plus Pact Stronger Economic Policy Coordination For Competitiveness And Convergence (25 March 2011)

This Pact has been agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. Competitiveness is essential to help the EU grow faster and more sustainably in the medium and long term, to produce higher levels of income for citizens, and to preserve our social models. Other Member States are invited to participate on a voluntary basis.

This renewed effort for stronger economic policy coordination for competitiveness and convergence rests on **four guiding rules**:

- a. It will be **in line with and strengthen the existing economic governance** in the EU, while providing added value. It will be consistent with and build on existing instruments (Europe 2020, European Semester, Integrated Guidelines, Stability and Growth Pact and new macroeconomic surveillance framework). It will involve a special effort going beyond what already exists and include concrete commitments and actions that are more ambitious than those already agreed, and accompanied with a timetable for implementation. These new commitments will thereafter be included in the National Reform and Stability Programmes and be subject to the regular surveillance framework, with a strong central role for the Commission

in the monitoring of the implementation of the commitments, and the involvement of all the relevant formations of the Council and the Eurogroup. The European Parliament will play its full role in line with its competences. Social partners will be fully involved at the EU level through the Tripartite Social Summit.

- b. It will be focused, action oriented, and cover **priority policy areas that are essential for fostering competitiveness and convergence**. It will concentrate on actions where the competence lies with the Member States. In the chosen policy areas **common objectives will be agreed upon at the Heads of State or Government level. Participating Member States will pursue these objectives with their own policy-mix, taking into account their specific challenges.**
- c. **Each year, concrete national commitments will be undertaken by each Head of State or Government.** In doing so, Member States will take into account best practices and benchmark against the best performers, within Europe and vis-à-vis other strategic partners.  
  
The implementation of commitments and progress towards the common policy objectives will **be monitored politically by the Heads of State or Government** of the euro area and participating countries on a yearly basis, on the basis of a report by the Commission. In addition, Member States commit to consult their partners on each major economic reform having potential spill-over effects before its adoption.
- d. Participating Member States are fully committed to the completion of the Single Market which is key to enhancing the competitiveness in the EU and the euro area. This process will be fully in line with the treaty. **The Pact will fully respect the integrity of the Single Market.**

## Our goals

Participating Member States undertake to take all necessary measures to pursue the following objectives:

- Foster competitiveness
- Foster employment
- Contribute further to the sustainability of public finances
- Reinforce financial stability

Each participating Member State will present the specific measures it will take to reach these goals. If a Member State can show that action is not needed on one or the other areas, it will not include it. The choice of the specific policy actions necessary to achieve the common objectives **remains the responsibility of each country, but particular attention will be paid to the set of possible measures mentioned below.**

## Concrete policy commitments and monitoring

Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe.

### a. Foster competitiveness

Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. To ensure that growth is balanced and widespread in the whole euro area, specific instruments and common initiatives will be envisaged to foster productivity in regions lagging behind.

Each country will be responsible for the specific policy actions it chooses to foster competitiveness, but the following reforms will be given particular attention:

(i) respecting national traditions of social dialogue and industrial relations, measures to ensure costs developments in line with productivity, such as:

- review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process;
- ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).

(ii) measures to increase productivity, such as:

- further opening of sheltered sectors by measures taken at the national level to remove unjustified restrictions on professional services and the retail sector, to foster competition and efficiency, in full respect of the Community *acquis*;
- specific efforts to improve education systems and promote R&D, innovation and infrastructure;
- measures to improve the business environment, particularly for SMEs, notably by removing red tape and improving the regulatory framework (e.g. bankruptcy laws, commercial code).

### b. Foster employment

A well functioning labour market is key for the competitiveness of the euro area. Progress will be assessed on the basis of the following indicators: long term and youth unemployment rates, and labour participation rates.

Each country will be responsible for the specific policy actions it chooses to foster employment, but the following reforms will be given particular attention:

- labour market reforms to promote “flexicurity”, reduce undeclared work and increase labour participation;
- life long learning;
- tax reforms, such as lowering taxes on labour to make work pay while preserving overall tax revenues, and taking measures to facilitate the participation of second earners in the work force.

### c. Enhance the sustainability of public finances

In order to secure the full implementation of the Stability and Growth Pact, the highest attention will be paid to:

#### Sustainability of pensions, health care and social benefits

This will be assessed notably on the basis of the sustainability gap indicators<sup>1</sup>. These indicators measure whether debt levels are sustainable based on current

policies, notably pensions schemes, health care and benefit systems, and taking into account demographic factors.

Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

## National fiscal rules

Participating Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used, but will make sure that it has a sufficiently strong binding and durable nature (e.g. constitution or framework law). The exact formulation of the rule will also be decided by each country (e.g. it could take the form of a “debt brake”, rule related to the primary balance or an expenditure rule), but it should ensure fiscal discipline at both national and sub-national levels. The Commission will have the opportunity, in full respect of the prerogatives of national parliaments, to be consulted on the precise fiscal rule before its adoption so as to ensure it is compatible with, and supportive of, the EU rules.

## d. Reinforce financial stability

A strong financial sector is key for the overall stability of the euro area. A comprehensive reform of the EU framework for financial sector supervision and regulation has been launched.

In this context, Member States commit to putting in place national legislation for banking resolution, in full respect of the Community *acquis*. Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis. In addition, the President of the ESRB and the President of the Eurogroup will be invited to regularly inform Heads of State or Government on issues related to macro-financial stability and macroeconomic developments in the euro area requiring specific action. In particular, for each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored.

In addition to the issues mentioned above, attention will be paid to tax policy coordination. Direct taxation remains a national competence. Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.

Developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.

The Commission has presented a legislative proposal on a common consolidated corporate tax base.

## Concrete yearly commitments

In order to demonstrate a real commitment for change and ensure the necessary political impetus to reach our common objectives, each year participating Member States will agree at the highest level on a set of concrete actions to be achieved within 12 months. The selection of the specific policy measures to be implemented will remain the responsibility of each country, but the choice will be guided by considering in particular the issues mentioned above. These commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year which will be assessed by the Commission, the Council, and the Eurogroup in the context of the European Semester.

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## Notes

1. The sustainability gap are indicators agreed by the Commission and Member States to assess fiscal sustainability.