

**France and Germany – Together for a stronger Europe of Stability and Growth**

*France and Germany agree that stability and growth within the Euro area are decisive for the future of our two countries and the European Union as a whole. They are a prerequisite to assert our European economic and social model in the world. France and Germany are conscious of their particular responsibility in this respect. This is why on 22<sup>nd</sup> January 2013, on the occasion of the 50th anniversary of the Élysée Treaty, they announced they will take ambitious initiatives to define the next steps of the deepening of the Economic and Monetary Union (EMU), the policies, the instruments and the democratic institutional framework necessary for its realization. In particular, they committed themselves to present a joint contribution to the preparation of the European Council in June.*

The efforts undertaken by Member States to continue growth friendly fiscal consolidation stabilize the euro zone, preserve its integrity and thus restore confidence in the future of EMU. They are conducted in full respect of the existing rules of the Stability and Growth Pact and the Treaty on Stability, Cooperation and Governance in the Economic and Monetary Union which offer the necessary flexibilities.

Promoting growth and fiscal consolidation are mutually reinforcing and should be pursued with the same credibility. The pace of fiscal adjustment must be set for each Member State depending on the situation of its public finances and the need to preserve or return to sustainable growth. In this context, progress should continue to be made towards structurally balanced budgets. This should go hand in hand with short-term targeted measures to boost growth and support job-creation, particularly for the young, prioritising growth-friendly investment as well as with well-designed reforms aiming at enhancing competitiveness. This will be implemented in each Member State depending on its needs and specificities, while strengthening the economy's competitiveness and enhancing growth.

**Boosting competitiveness, growth and jobs**

France and Germany agree that in order to complement the necessary measures by Member States, European policies and instruments should be fully mobilized to support growth and employment.

- **Plan for youth employment:** Addressing unemployment of young people is the most important social and political challenge facing us. We endorse the objective of the “youth guarantee” to ensure all young people under the age of 25 receive a good quality offer of employment, education, apprenticeship or traineeship. The plan should aim at offering better training, integration into the world of work and improved conditions for mobility, in particular:
  - dual training and apprenticeship should be developed. The opportunities provided in that regard by the “Erasmus for all” programme should be made best use of;
  - in order for the Youth Employment Initiative to play its full role, the disbursement of the 6 bn € allocated to it should be frontloaded focused on the first two years of the next Multi-annual Financial Period and become effective as early as possible in 2014. Effective preparation should take place before the end 2013. Other structural funds, in particular the European Social Fund, could also be used;
  - access for SMEs to financing is particularly important in that context.

**A conference of employment ministers and labour market administrations on July 3** in Berlin at the invitation of Chancellor Merkel with President Hollande aims to identify the most promising approaches for actions by member states and the support from European funds foreseen under the Multi-annual Financial Framework.

- **Access for small and medium-sized enterprises to financing:** development of SMEs is a keystone for growth and employment in the Euro area. It is of particular importance in the framework of the plan for youth employment. Improving their competitiveness remains the main medium and long-term goal to this end. Germany and France take note of the recent announcement by the ECB, EIB and Commission to set up a task force assessing options to re-establish financing mechanisms in favour of SMEs. We support ambitious efforts bringing together efficient refinancing, leverage on private investment and making full use of

structural funds, and of the possibilities by EIB and the EIF. More generally, the EIB and the European Investment Fund should take a proactive stance in fostering growth. The possibilities of support by public development banks should also be examined.

- **“Compact for growth and jobs”**: work on fully implementing the "Compact for Growth and Jobs" agreed in June 2012 based on fast-acting growth measures of € 120 billion must be accelerated. The necessary measures have been taken in recent months. The projects must be financed without delay so that they can quickly contribute to growth and the creation of jobs.
  
- **Multiannual Financial Framework 2014-20**: the Multiannual Financial Framework (€ 960 billion in 2011 prices) must be adopted as a matter of urgency in order to make a full use of the resources provided thereunder, in particular for investment, innovation and employment. The European institutions and Member States should take the necessary steps to ensure quick and effective deployment of these means in order to increase their immediate impact.
  
- **Investment plan** : The Commission and the EIB should be invited, in the framework of the report they will put forward during the June European Council meeting, to present an **“investment plan”** for the European Union based on:
  - all resources decided at European level,
  - the instruments representing the most effective levers to spur private investment,
  - and the major priorities, including infrastructure, energy efficiency and renewable energy, innovation, the digital economy and small and medium sized enterprises (SMEs).

The conditions for private investment in Member States must be improved. We must develop, at the European level and at national level, the right domestic policy framework to support competitiveness and private investment.

- **Internal market:** The enhancement of the internal market is essential to bolster long-term growth and shock resilience. We support simplification efforts in order to improve the quality of legislation while recognising that regulation is necessary in order to address the needs of citizens and businesses. In particular small and medium-sized enterprises should benefit from intelligent regulation and the reduction of unnecessary administrative burden.
- **Industry:** Industry plays a key role in Europe for growth, creation of jobs and development of our exports. France and Germany support the objective of increasing the industrialisation of Europe. France and Germany also take note of the report submitted by the Franco-German Working Group on “Competitiveness and Growth” chaired by Jean-Louis Beffa and Gerhard Cromme. Industrial competitiveness will be part of the June European Council discussions leading up to an in-depth debate at the February 2014 European Council.
- **Trade:** Further progress needs to be made both in strengthening the multilateral system and in the ongoing and upcoming bilateral negotiations. The aim must be to create growth and employment, this is why we must increase access of our companies to third country markets and remain determined to promote free, fair and open trade whilst asserting our interests, in a spirit of reciprocity and mutual benefit.

## **Strengthening Economic and Monetary Union**

### ***Financial market integration***

Progress towards a more integrated financial framework is urgently needed in order to contribute to restore normal lending, improve competitiveness and bring about the necessary economic adjustments. The Single Supervisory Mechanism is a major breakthrough in this respect and an essential building block to develop further elements of a banking union. The Single Supervisory Mechanism therefore needs to be implemented effectively with specific attention to be paid to the process of entry under ECB supervision.

The banking union needs to be implemented within the agreed timetable for the different workstreams:

- The Bank Recovery and Resolution Directive as well as the Deposit Guarantee Directive have to be concluded by the Council by the end of June 2013, to be followed by the approval by the European Parliament. We call on Member States to pursue rapid implementation into their national law.

- Main features for the operational criteria for direct banking recapitalization scheme should be decided until the end of June 2013 in parallel with the negotiations on the Bank Recovery and Resolution Directive and the Deposit Guarantee Directive. As soon as these directives will be finalized with the European Parliament, the operational criteria for direct banking recapitalization scheme should be finalized as well.
- The establishment of a Single Resolution Mechanism for countries participating in the Single Supervisory Mechanism has to build upon this with a view to adoption by the end of this parliamentary term. It should be established on the basis of the current treaties and on the basis of the following principles:
  - A single resolution board involving national resolution authorities and allowing quick, effective and coherent decision-making at the central level.
  - The single resolution mechanism should be based on contributions by the financial sector itself, thus pre-financing over time an appropriate and effective private backstop arrangement building on national private backstop arrangements.
  - With private backstop elements growing in importance over time, the ESM should play the role of an additional public backstop both through lending facilities to Member States or direct recapitalization based on the operational criteria still to be decided.
  - Looking ahead, we could explore the possibility to bring together the Single Resolution Mechanism and the ESM.

### ***Economic policy coordination and social dimension***

The lesson to be drawn from the crisis is that we need to ensure effectively that national and European economic policies contribute to the proper functioning of Economic and Monetary Union.

France and Germany are convinced that by coordinating their economic policies, based on a common orientation for the economic policy of the euro area, Member States will be able to increase competitiveness, growth and employment, provide prosperity to their citizens and assert our economic and social model in an increasingly competitive world.

- **Economic policy at Euro area level:** To devise a strengthened economic policy coordination that achieves this, we need – **in a first step** – to establish a common assessment on what are the key factors, indicators and problems we need to look at in order to identify the reforms and measures required of each Member State and at the European level. This will form the basis for the development of an economic policy at Euro area level as well as the framework in which relevant national policies and reforms will be justified.
  
- **Indicators:** We cannot wait for problems to accumulate into macro-economic imbalances before an assessment sets in. Our goal should be to make our economies more resilient, innovative and competitive while ensuring that damaging imbalances do not develop. Therefore, France and Germany propose to develop further, building on existing instruments, a set of indicators contributing to provide a commonly accepted economic diagnosis of the euro area and all Euro area Member States at an earlier stage and on a broader basis. Those indicators should allow, inter alia, identifying the weaknesses and vulnerabilities in the economy as a whole, as well as, for example, in product markets, in labour markets and as regards external aspects of competitiveness. These indicators would evolve depending on national situations as well as over time and should be specifically targeted to our aims.
  
- **Policy areas:** This diagnosis will contribute to the identification of the policy areas on which actions need to be taken as a matter of priority by Member States and at the European level, the guiding principles being that the policy areas submitted to strengthened economic policy coordination should be that they are essential for the functioning of EMU and the achievement of high levels of growth and employment. They could, for example, comprise:
  - labour market ,
  - unemployment and social inclusion,
  - retirement policies,
  - product market,
  - general taxation,
  - public sector efficiency ,
  - innovation and the education system, vocational education and training.

- **Tax systems:** The convergence of tax systems is vital in an EMU in order to ensure the coherence of the euro area's economic policy. We are ready to complete the negotiation for the Financial Transaction Tax and re-launch the agenda for fiscal convergence with all voluntary Member States starting with resuming the work on the common corporate tax base.
  
- **Social dimension:** Taking into account the social dimension is a political imperative as well as an economic necessity. Social imbalances must be prevented. We agree that we need to preserve a high-quality education and broad opportunities for lifelong learning in order to ensure the highest possible level of qualification. We also agree that we need to preserve a high level of social protection, combined with a strengthened competitiveness, and fight against unemployment. Therefore, the economic diagnosis should take into account developments such as youth unemployment and other social objectives as in the Europe 2020 strategy (20-64 years-old to be employed; school drop-out rates; 30-34 years-old completing third level education; people in or at risk of poverty or social exclusion). France and Germany invite the Commission to monitor these developments in the framework of the European Semester as well as in the diagnosis for euro area Member States.

We also propose considering implementing minimum wage floors, defined at national level, that would guarantee a high level of employment and fair wages – leaving the choice between legislation and collective-bargaining agreements.

France and Germany are calling for encouraging cross-border worker mobility by removing obstacles, improving cooperation between employment services (building upon the EURES platform) and facilitating the portability of rights in case of mobility.

To reach the end of establishing a common assessment in the first step, France and Germany propose in-depth discussions at the level of Heads of State or Government in the autumn 2013 on indicators and policy areas.

- **Contractual arrangements for competitiveness and growth and solidarity mechanisms:** Only on the basis of this common assessment of what we – as Member States and together as an Economic and Monetary Union – need to do to keep our economies continuously geared towards competitiveness, growth and employment, we will be able to devise processes which combine legitimacy with ownership.

In particular, we should – **in a second step** – define better the concept of contractual arrangements for competitiveness and growth with a differentiated approach engaging all Euro area Member States while taking into account their specific situation. Member States' competences and the principle of subsidiarity will be respected. Member States and the European level will enter into contractual arrangements. Both sides will be committed to implement the undertakings decided under these contractual arrangements. Non Euro area Member States are invited to participate on a voluntary basis.

Solidarity mechanisms should be developed in this context. A new system of limited and conditional financial incentives specific to the Euro area will be set up to jointly support efforts undertaken by Member states concluding contractual arrangements as part of an overall set of provisions including non-financial incentives. The creation of a specific fund for the Euro area will be useful in this context.

Building on the establishment of a common assessment, France and Germany propose an in-depth discussion at the level of Heads of State or Government at the end of the year on the nature and modalities of contractual arrangements as well as on the resources and modalities for such a fund.

- **Euro-area governance:** A stronger Euro area requires stronger Euro area governance and a stronger legitimacy. The deepening of the EMU should be implemented while ensuring at every stage and at every level the democratic nature of decisions and the effectiveness of procedures. France and Germany propose to strengthen the governance of the Euro area after the next European elections with the beginning of the next terms office of the presidents of the European institutions. This could include:
  - more regular Euro area summits ; a full-time President for the Eurogroup of Finance Ministers relying on wider resources and the possibility for the Eurosummit to task other Euro area Ministers, for example employment and social affairs, research or economics ministers, to take work forward on specific Euro area matters.
  - dedicated structures specific to the Euro area to be set up within the European Parliament after the next European elections to ensure adequate democratic control and legitimacy of European decision-making, with the means to achieve this to be left for the Parliament to decide. At the same time, democratic control,

legitimacy and ownership must be ensured at the national level for decisions falling into national competence. Adequate procedures need to be developed to ensure this.

- Social partners both on national and on European level should have an enhanced role. On the EU level, this could include better use of the Tripartite Social Summit as well as more regular dialogue with the social partners should be, while respecting their autonomy.

*We, France and Germany, invite our partners and the European institutions to reflect on these proposals with a view to the upcoming June European Council. We consider that these are steps to be taken within the next two years in the deepening of our Economic and Monetary Union towards a stronger Europe of Stability and Growth – to the benefit of our citizens.*