

2007 annual report on the euro area

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The European Parliament adopted the initiative report by Dariusz **ROSATI** (PES, PL) on the 2007 annual report on the euro area. The salient issues covered by this report are as follows:

The report welcomes the favourable economic developments achieved in 2006 in terms of growth and employment, resulting in the creation of 2 million new jobs and lower fiscal deficits. It points out that the high unemployment levels and the low participation in labour markets do not allow Europe to respond successfully to current and future challenges in a global economy. MEPs consider that it is too early to draw firm conclusions as to whether the recovery is more cyclical or more structural in nature. Therefore, it calls for a cautious stance in this regard.

Insisting that sound fiscal policy is a pre-condition for sustained growth and job creation, the Parliament calls for the current upswing to be used in two ways in order to achieve the following: to eliminate deficits and accumulate surpluses, which would reduce debt levels as well as to improve the quality of public finance by investing more in education, vocational training, infrastructure, and research and innovation, which would assist in helping to meet the challenges posed by an ageing population.

The report notes that the differences in the level of international competitiveness of euro area economies are partly caused by diverging trends in unit labour costs which reflect different developments in productivity and wage dynamics. They call on shareholders and corporate executives to maintain a responsible policy towards remuneration packages and bonuses at the top corporate levels, which tend to grow disproportionately compared to ordinary salary levels, and thus give the wrong signals and discourage support for a responsible wage policy.

The Parliament regrets that the performance of the eurozone in the field of innovation, as in the case of business expenditure on R&D, is lower than that of the USA and Japan. It therefore calls for a consistent policy which fosters innovation-based growth. Such a policy requires more investment in infrastructure, research, innovation, lifelong learning and education, more competition on product and services markets, more developed financial sectors and more flexible labour markets while ensuring the required level of social security (flexicurity) in accordance with the renewed Lisbon Strategy, as well as complementary policies aimed at correcting excessive inequalities caused by the reforms.

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Concerning the enlargement of the euro area, the report welcomes the entry of Slovenia to the euro area on 1 January 2007 and the smooth changeover from the Tolar to the euro. There is a need for agreement between Parliament, the Council and the Commission on a clear roadmap for the euro area application procedure in order to ensure a sufficient period of assessment and preparation for all institutions involved, which would increase the confidence of citizens and Member States in the changeover process. The report acknowledges that the definition of price stability used for assessing the convergence criteria is not identical to the price stability definition adopted by the ECB in its monetary policy, as the convergence criteria mainly assess measured past performance whilst the ECB's definition is an aim set for future performance. It regrets that the inflation criterion as set in the Treaty is measured against all Member

States instead of concentrating on those which are now part of the eurozone. Parliament considers that the new Member States may face challenges in joining the eurozone especially with regard to the price stability criterion, since inflation may be part of the catching-up process.

As regards the issue of governance, MEPs consider it crucial to achieve a better coordination of budgetary policies among Member States over the cycle, notably based on a common calendar and macroeconomic assumptions. They believe in the interest of stronger economic coordination that the Eurogroup should move away from an informal to a more formal institutional framework, which includes proper infrastructures.

Emphasising that the euro has emerged as the second most important international currency behind the US dollar, the Parliament considers that a prerequisite for common external representation is the existence of a genuine common economic policy within the euro area. Parliament reasserts that the best option for representation of the euro area in the major international financial fora and institutions remains the creation of a single euro area chair.