EMU@10: The first 10 years of Economic and Monetary Union and future challenges

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This Communication, along with the report that accompanies it, assess the experience of the first decade of EMU. It also identifies the goals and challenges facing the euro area, and puts forward a policy agenda **for EMU's continued success**.

EMU is a resounding success, according to the Communication. Ten years into its existence, it has ensured macroeconomic stability, spurred the economic integration of Europe - not least through its successive enlargements -, increased its resilience to adverse shocks, and become a regional and global pole of stability. Now more than ever, the single currency and the policy framework that underpins it are proving to be a major asset.

Nevertheless, there is potential to reap further benefits from EMU. This potential - coupled with the pressing challenges of globalisation, scarce natural resources, climate change and an ageing population, - calls for a number of shortcomings to be addressed.

It will be necessary to consolidate the hard-won macroeconomic stability while: (a)raising potential growth, and safeguarding and increasing the welfare of euro-area citizens; (b)ensuring a smooth adjustment capacity as EMU expands to take in new members; and (c) successfully protecting the interests of the euro area in the global economy. Importantly, these efforts will have to be made in a global environment that has changed considerably since the euro was launched, and failure to do so will be much more costly now.

To address these challenges, the Commission proposes **a three-pillar agenda**:

1) The domestic policy agenda aims to deepen fiscal policy coordination and surveillance, to broaden macroeconomic surveillance in EMU beyond fiscal policy and to better integrate structural reform in overall policy coordination within EMU. In particular, it is necessary to: (i) continue to rigourously apply the corrective arm of the Stability and Growth Pact (SGP) and improve surveillance under the SGP's preventive arm; (ii) secure the sustainability of public finances; (iii) enhance the quality of public finances; (iv) broaden surveillance to address macroeconomic imbalances; (v) broaden surveillance of euro-area candidate countriesto help them prepare for the challenges of adopting a single currency. Moreover, the euro area needs better-functioning labour markets to underpin adjustment in a globalised economy and to raise growth potential in the face of ageing populations. Finally, the euro area can draw comparatively large benefits from promoting EU financial integration.

2) The external agenda aims to enhance the euro area's role in global economic governance. The euro area must build an international strategy commensurate with the international status of its currency. It must: (i) play a more active role both in multilateral fora and through its bilateral dialogues with strategic partners; (ii) improve coordination and define common positions and - when appropriate - common terms of reference on all these issues; (iii) speak with a single voice on exchange rate policies; and (iv) assume its responsibilities in financial stability and macroeconomic surveillance issues. The most effective way for the euro area to align its influence with its economic weight is by developing common positions, consolidating its representation, and ultimately obtaining a single seatin the relevant international financial institutions and fora.

3) A more effective economic governance system: (i) a strong involvement of all EU Member States within the ECOFIN Councilis key to ensuring that EMU functions effectively; (ii) the Eurogroup should

continue to serve as a platform for the deepening and broadening of policy coordination and surveillance in EMU; (iii)EMU's governance system must ensure that euro-area enlargement continues smoothly; (iv) there is also a need to improve the dialogue concerning EMU among the EU institutions and with the public at large.

To fully deliver these benefits, the continued involvement of all parties is crucial. Hence the Commission will encourage a wide discussion on these topics in the second half of 2008 and promote a broad consensus on the building blocks of this agenda with other EU institutions as well as a range of relevant bodies and stakeholders. Drawing on this discussion, the Commission will come forward with appropriate operational proposals.