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

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The European Parliament adopted, by 545 votes to 86 against 37 abstentions, a resolution on the EMU@10: The first ten years of Economic and Monetary Union and future challenges.

The own-initiative report had been tabled for consideration in plenary by Pervenche **BERÈS** (PES, FR) and Werner **LANGEN** (EPP-ED, DE) on behalf of the Committee on Economic and Monetary Affairs.

The Parliament shares the view that the single currency has become a symbol of Europe and has shown that Europe is capable of taking far-reaching decisions for a common and prosperous future. It welcomes the fact that the euro has brought stability and fostered economic integration in the euro area and welcomes the stabilising effects of the euro on the world currency markets especially in times of crisis. It proposes concrete measures for a desirable EMU roadmap.

Economic divergence, structural reforms and public finances: Parliament believes that streamlined and more coherent, multi-supportive economic reforms coordinated in a timely fashion on the basis of the integrated guidelines for growth and jobs (Integrated Guidelines) and a policy-mix approach of the Lisbon Strategy could decrease economic divergences and be a great help towards economic recovery from the current financial crisis. MEPs note that the **revised Stability and Growth Pact (SGP)** has proven its value and that a strong consolidation of budgets has to be adhered to. They criticise, in this context, the lack of discipline in combating budgetary deficits in times of economic growth and stresses that Member States must more effectively work towards an anti-cyclical fiscal policy, in particular in order to be better prepared for external shocks. They underline, therefore, the need for a short-term strategy to reduce national debts and a sustainable and sound growth strategy, which will allow for a reduction of national debt to a maximum of 60 % in the long term.

Parliament considers that a sustainable and stable macro-economic environment requires improving the **quality of public finances** including **further budgetary consolidation**, high efficiency of public spending and enhanced investment in education, human capital, R&D and infrastructure that is conductive to growth and could stimulate employment and which address major society concerns, such as climate change, in line with the objectives of the “climate-energy” package. Moreover, structural reforms should focus on increasing productivity through a better combination of economic and social policy, while ensuring a good level of social dialogue.

MEPs warn against focusing essentially on **wage moderation** as a way of achieving price stability. They are of the view that real wage increases in line with productivity levels should be ensured and that coordination of tax policy should be selectively used to achieve economic goals. Stressing that the need for fair rules for the internal market, MEPs consider that the race to the lowest corporate tax rates is counter-productive.

Lastly, Member States in the euro area are requested to strengthen the effective coordination of economic and financial policy, in particular by developing a **coherent common strategy within the Eurogroup**.

Monetary policy: MEPs recall its strong commitment to the **independence of the ECB** and they consider that the monetary policy dialogue between Parliament and the ECB has been a success, and one which should be built on further. According to them, the ECB should move towards a **direct inflation targeting regime** where a point inflation target is supplemented by a range of permitted fluctuations around the

target rate. The ECB is invited to publish its inflation forecasts. Parliament stresses its willingness to explore possible improvements in the procedure for appointing the members of the ECB's executive board before 2010. MEPs consider that inflation is a global reality and that in an open economy it cannot be combated by EU monetary policy alone. They underline the need for a stren**gthened international monetary dialogue** between the ECB and other main central banks and institutions, and, in particular, with the US Federal Reserve, the Bank of Japan, and the People's Bank of China.

Integration and supervision of financial markets: the resolution underlines that much remains to be done in the area of the **clearing and settlement of cross-border securities transactions**, where no real integration exists to date. With regard to retail services, more integration is needed, without such integration being to the detriment of consumer protection. They believe that customer mobility, financial literacy, access to basic services, and comparability of products need to be improved.

MEPs consider a Europeanisation of the financial supervision structure, financial market transparency, effective competition rules and appropriate regulation to be necessary in the medium term, in order to improve crisis management and cooperation between the European System of Central Banks (ESCB), supervisory authorities, governments and market participants. They take the view that an **integrated, comprehensive** (covering all financial sectors), **consistent and coherent supervisory framework** starting with a balanced approach in regulating the cross-border spread of financial risk on the basis of harmonised legislation would decrease compliance costs in the case of multi-jurisdiction activities. The Commission is called upon to put forward proposals for revising the existing supervisory architecture along those principles. They highlight that the European Union, as the world's largest economic area with the largest financial markets, should play a leading role at international level in terms of reforming the regulatory system for financial services.

Enlargement of the eurozone: MEPs request that all Member States outside the euro area observe the Maastricht criteria and the reformed and generally flexible SGP. They consider that a strict interpretation of the SGP and the use of the exclusion criteria before any possible accession must be ensured by the Commission. They note that **equal treatment of the Member States** in the euro area and Member States wishing to join must be ensured. In this context, long-term stability of the euro area must be regarded as an aim of common interest and that enlargement and stability must go hand in hand.

MEPs consider that the Member States outside the euro area that fulfil the Maastricht criteria and have no derogation in the Treaty should adopt the common currency at the earliest possible opportunity. MEPs stress, in connection with enlargement of the euro area, the desirability of a high level of convergence in the real economy in order to limit the strain involved, both for the euro area and the Member States wishing to join.

Communication: the resolution emphasises that while in the euro area to date a high degree of price stability has been maintained, 'perceived inflation' has substantially diverged from the lower actual inflation rates in the Member States during the last ten years. MEPs demand, therefore, better information and clarification of facts for the population about the need for and operation of the EMU, in particular with regard to price stability, international financial markets, and the advantages of stability within the euro area in international financial crises. The Commission is invited to concentrate its efforts on helping the new Member States to prepare their citizens for the adoption of the euro by undertaking an intensive information campaign, supervising its implementation where such a campaign is already underway and reporting regularly on best practises on the implementation of the National Action Plans for the adoption of the euro.

International role of the euro and external representation: MEPs welcome the quick development of the euro as the second most important reserve and transaction currency after the US dollar, with a share of 25 % of global foreign exchange reserves. They regret that in spite of the growing global role of the euro, attempts to improve the external representation of the euro area on financial and monetary matters have

not made much progress. According to them, the euro area must build an international strategy commensurate with the international status of its currency.

The Parliament supports the intention of the Commission to st**rengthen the influence of the EMU in international financial institutions** with a common EU position represented by selected representatives, such as the president of the Eurogroup, the Commission and the president of the ECB. Lastly, it highlights that a **common EU approach** is needed regarding the reform of international financial institutions, which should take into account the challenges of a global economy including the emergence of new economic powers.

Improved governance: MEPs consider that all relevant parties - Parliament, the Council, the Commission, the Eurogroup, and the social partners at EU and national level - should work together to strengthen future working of the EMU as regards economic governance on the basis of the following suggestions:

- as an essential component of the Lisbon Strategy and the central economic instrument, the Integrated Guidelines should, with the aim of a balanced 'policy-mix approach', pursue mutually inspiring reforms in the areas of employment, the environment and social security; they should establish a broad framework for closer economic policy coordination in order to align National Reform Programmes (NRPs), taking into account, however, economic diversity and differing national traditions;
- Member States' governments should, when deciding on their national budgets, take into account the Integrated Guidelines and the country-specific recommendations as well as the overall budgetary situation in the euro area;
- more formal recommendations for the euro area Member States, such as setting targets regarding medium-term expenditure, specific structural reforms, investments, quality of public finance, should be used whenever possible;
- a binding framework within which euro area Member States consult each other and the Commission before taking major economic policy decisions;
- economic coordination should take the form of an integrated "European Economic and Employment Strategy" recognising the potential of new and green technology as a cornerstone of economic growth coupled with a macro-economic policy mix;
- the financing of innovative enterprises, in particular SMEs, should be facilitated, inter alia by the establishment of a "European Smart Growth Fund" by the European Investment Bank;
- a code of conduct between Parliament, the Council and the Commission, which would guarantee proper cooperation and the full involvement of those three EU institutions concerned in the appropriate further handling of the Integrated Guidelines;
- the institutional set-up up for economic policy coordination should be strengthened; Eurogroup formations should also be established in the field of competitiveness/industry, environment, employment and education; the Economic Policy Committee should be absorbed into the Economic and Financial Committee so as to constitute a single and coherent preparatory body for the Economic and Financial Affairs Council and the Eurogroup; a Parliament representative should be given observer status within the Eurogroup and at informal Council meetings;
- an active dialogue needs to be established between Parliament, the Eurogroup, the ECB and the European Economic and Social Committee for the purpose of conducting discussions about the appropriate mix of monetary, economic, exchange-rate, wage and structural policies.

Economic slowdown and high inflation: to combat the economic slowdown and high inflation, Parliament calls for:

- a coordinated response at the EU level, based on a common understanding of the problems and common follow-up measures while accepting some national specificities;
- the enhancement of crisis-resolution arrangements;
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- measures supporting SMEs, in particular, to complement recent European Investment Bank action and to ensure sustained credit lines to SMEs by the banking system;
- a definition of targeted measures to protect vulnerable groups from the effects of the current financial crisis;
- a proactive European reaction within international forums, notably the FSF and the IMF;
- the formulation of a European Union voice within the G8;
- better and more efficient coordination between the World Trade Organisation (WTO) and the Bretton Woods institutions (the IMF and the World Bank Group) in order to combat speculation and meet the challenges posed by the serious crisis;
- a world monetary conference to be organised under the auspices of the IMF in order to hold global consultations on monetary questions.