

Report on the 2009 annual statement on the euro area and public finances

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The Committee on Economic and Monetary Affairs adopted the own-initiative report drawn up by Sven GIEGOLD (Greens/ALE, DE) on the Report on the 2009 Annual Statement on the Euro Area and Public Finances.

Monetary policy: Members are alarmed by the **ongoing contraction of employment** in the EU despite the exceptional efforts of monetary and fiscal policy. They stress that, in addition to the exceptional recovery measures, **structural reforms must be stepped up rather than stalled**, so as to make the European economy and labour market more robust. They welcome the ECB's extension of liquidity to credit institutions; but are concerned that the extra liquidity has not been used by all banks to ease the 'credit crunch' faced particularly by small and medium-sized businesses (SMEs).

The committee is also concerned about the economic consequences for the euro area of a rapid fall in the value of the US dollar and the renminbi yuan, the latter artificially devalued by an **unfair intervention on the part of the Chinese Government**, and the possibility of a new asset bubble in Asia. It calls for **enhanced international macroeconomic dialogues** in order to adjust exchange rates so that a more balanced world economy may be achieved.

The report underlines the fact that the discipline of wage moderation also acts as a brake on the growth of household income and therefore **warns against focusing exclusively on wage moderation** as an instrument to achieve price stability. It recalls that increased global competition has already contributed to downward pressure on wages, while higher commodity prices and energy costs have reduced the purchasing power of EU consumers. Members stress that **real salaries should rise in line with productivity gains**, in order to guarantee long-term stability in the distribution of income.

Members feel that exchange-rate fluctuations constitute an impediment to global economic recovery and that **coordination of monetary policy is essential** to avoid the emergence of financial imbalances. They call for a **world monetary conference** to be organised under the auspices of the IMF, and they also want better coordination between the WTO, the IMF, the Financial Stability Board and the World Bank Group in order to combat speculation.

Improving coordination and cooperation on economic policy: the Committee shares the Commission's concerns about accumulated imbalances in the euro area. It calls on the Commission to **develop diagnostic tools and indicators**, in order more effectively to assess economic developments in Member States, including multilateral surveillance of unit labour costs, real exchange rates, financial markets and policies affecting competitiveness. It also suggests that the Commission examine possible ways of **improving effectively the economic governance of the euro area**, including the setting-up of new mechanisms to prevent the renewed excessive growth of such imbalances in the future and the asymmetric shocks to which they contribute.

Members also make the following points:

- the established mechanism of policy coordination within the euro area did not work well in the crisis, and they share the Commission's view that a deepening and broadening of macroeconomic surveillance is urgently needed;

- they warn against excessive recourse to the EIB, which would result in the budgetary procedure being circumvented and would prevent Parliament from giving its opinion on the trajectory of committed expenditure;
- they stress the need for comprehensive application of the rules of the SGP while noting that the rules laid down in the SGP refer only to public deficit and public debt. They consider that fiscal coordination should go beyond the current scope of the SGP;
- economic coordination should take the form of an integrated European economic and employment strategy on the basis of the forthcoming EU 2020 Strategy, the Integrated Guidelines, the Sustainable Development Strategy and the convergence and stability programmes.

Public finances: noting that Member States' public deficits are set to increase rapidly to about 7% of GDP in 2010, the committee expresses its deep concern over the **unsustainable level of public debt** and its predicted rapid increase in 2010 and 2011. It takes the view that, once out of the current recession, there is a need, while complying with the reformed SGP, to **strengthen the preventive arm of the pact** in order to ensure that Member States refrain effectively from pro-cyclical policies during periods of growth. Members support the Commission's use of the excessive deficit procedure in order to reduce public deficit and emphasise the importance of quantifiable programmes for balancing the public finances in Member States, starting in the years 2010 and 2011. They are extremely concerned at **developments in the deficit situation in Greece**, and call for lessons to be learnt from this situation, in future enlargements of the euro area, especially in relation to the **quality of statistical data**.

The report states that Member States with difficulties in sustaining their public finances should, in the first instance, be responsible for resolving those difficulties, particularly by means of a **more appropriate fiscal policy**, and it calls on Member States to accelerate the pace of their reforms through determined policy actions. Members also regret that there are **no binding commitments among governments to enforce coordination in the euro area**.

They call on the Commission to propose a set of measures to help Member States restore balance in their public accounts and finance public investment through:

- eurobonds or similar measures in order to lower the cost of interest for servicing public debt,
- encouraging tax cooperation between Member States including a timetable for the introduction of a common consolidated corporate tax base;
- introducing country-by-country reporting on corporate income and the taxes paid thereon.

The committee calls on the Commission:

- to work towards the definition of tools to **enhance the comparability of national budgets as regards spending** in different categories;
- to make a concrete proposal as soon as possible as to how the financial sector should contribute to the cost of the crisis;
- with the ECB and euro Member States, to **encourage the process of economic and monetary integration within the EU** and to support enlargement of the euro area.

Lastly, the committee stresses the importance of using effectively the new provisions in Article 136 of the TFEU to **improve economic coordination and governance** in the euro area, and it looks forward to concrete proposals in this respect.

Tackling resource dependency: stressing that delaying action on climate change because of the crisis could be costly in both economic and environmental terms, the committee calls for radically increased efforts in this direction. It calls on the Eurogroup to take the necessary measures to facilitate an entry into the euro area for those Member States which are seeking to join and which fulfil the conditions for entry.

External representation of the euro area: Members regret the **lack of progress in improving external representation of the euro area** despite the euro's growing global role as a reserve currency. They stress that the euro area must build an international strategy commensurate with the international status of its currency, and recall that the EMU policy agenda will be marked by the challenges posed by emerging Asian economies. Global imbalances related to exchange-rate fluctuations between, inter alia, the US dollar and the renminbi yuan and the euro must also be addressed in order to avoid future financial crises, and the committee invites the Eurogroup, the Council and the ECB to step up **coordination of their action in the sphere of exchange rate policy** accordingly. Members stress the importance of exchange rates in the preparation of forthcoming G-20 summits. Such preparation should be more transparent within the EU and that Parliament should be kept informed.