European Monetary Institute EMI. 2nd annual report 1995

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OBJECTIVE: In its second annual report (1995) the European Monetary Institute (EMI) provides an update on the way in which it is carrying out its task of preparing for EMU and on the economic results achieved in the EU Member States. SUBSTANCE: The report stresses that the EMI has stuck to the timetable for the preparatory work, which requires it to determine precisely the regulatory, organizational and logistic framework within which the European system of central banks will perform its tasks during Stage 3. Amongst the results achieved it mentions: - the EMI report entitled 'The Changeover to the Single Currency', which was the basis for a proposal submitted in December 1995 to the Madrid European Council, where the proposal was adopted; - the preparatory work on monetary policy instruments; - progress made in the area of payments systems (agreement on the TARGET system of linked real-time gross settlement systems). The EMI has also progressed in the preparation of EU-wide statistics and a single foreign exchange policy, in preparatory work for the production of the European banknotes and in the harmonization of accounting rules and standards. Crucial items on the agenda for 1996 are progress in defining monetary and exchange rate policy cooperation between the countries participating from the start in the Euro area and other EU countries, as well as in devising the appropriate monetary policy strategy for the European Central Bank. In parallel with the preparatory work for Stage 3, the EMI also has an important role in Stage 2 of strengthening cooperation amongst the national central banks and coordination of national monetary policies with the aim of ensuring price stability. In this connection the report notes that the EU countries have made considerable progress in reducing inflation and leading towards price stability and that, generally speaking, the monetary policies designed to ensure price stability have led to an overall fall in inflation. Long-term interest rates have fallen over the year as a whole, thereby continuing the downward trend observed since 1990. Lastly, following a period of instability at the beginning of the year, the situation on the exchange front has stabilized. However, the key to convergence remains fiscal policy. The deficits in most EU Member States are well over 3% of GDP and are therefore excessive. In addition, debt ratios in a number of countries are well in excess of the 60% reference value laid down in the Treaty and, on average, are continuing to increase. The EMI takes the view that the current economic slowdown does not provide justification for postponing necessary consolidation measures. Fiscal consolidation focused essentially on a reduction in public expenditure rather than tax increases is essential as a way of relieving the burden of debt interests, addressing the problems which the ageing of the population will eventually bring and making the most of the resumption in growth.