European Monetary Institute EMI. 4th and last annual report 1997

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OBJECTIVE: presentation of the fourth annual report (1997) of the European Monetary Institute.
SUBSTANCE: the 1997 report of the EMI is the fourth and last report of the EMI, as the last stage of the transition period leading to stage 3 of EMU began on 2 and 3 May 1998, with the definitive adoption of the euro as the single currency. Like the previous reports, the report describes the economic, monetary and financial situation of the Union in 1997 and the broad outlines of the EMI's operations during that year. As regards the Union's overall macroeconomic situation, the report indicates that the upturn seems to be accelerating, as the crisis in Asia does not seem to have damaged economic growth. Internal demand is recovering throughout the Union, making a strong contribution to the growth of real GDP (2.7%). However, the EMI observes that the growth of investment remains at a historic low in some countries, despite favourable economic indicators. Moreover, developments on the labour market remain unsatisfactory; the level of youth unemployment and long-term unemployment, as well as the lack of job creation bear witness to the structural character of unemployment in the Union (10.5% in 1997). The inflation rate in the Union fell to an all-time low in 1997, as a growing number of countries had inflation rates of 2% or even lower. The report states that the upturn has not given rise to any significant inflationary pressure, which has made it possible to keep the interest rate in the Union low and for interest rates elsewhere to fall significantly as well. For the 11 countries which are to adopt the euro, it will be essential to maintain this environment of general price stability and ensure that the common level of short-term interest rates is compatible with price stability in the euro zone. According to the report, the new challenges which will arise in the future concern budgetary policy. In the euro zone, it will be essential that all members should as soon as possible establish a budgetary situation close to balance or surplus. In certain cases it will also be necessary to achieve substantial surpluses on public budgets in order to lighten the burden of very high ratios of public debt to GDP, render national budgets less vulnerable to changes in interest rates and prepare for the impact of the ageing of the population on public finances. As regards the operations of the EMI in 1997 more specifically, the report indicates that the preparatory work for stage 3 has continued. The numerous fields where significant progress has been made include: 1) progress on the review of possible strategies for stage 3 of EMU (identification of a series of key elements which will characterise the strategy of the ESCB) and on preparing the analytical and econometric infrastructure in support of monetary policy; 2) drawing up of technical specifications on the operational framework of the ESCB and development of the data processing tools and systems needed to implement the ESCB's future monetary policy; 3) significant progress in fulfilling statistical requirements for the conduct of policy on the single currency which will make it possible, in the course of 1998, to provide the ESCB with data from the new database; 4) completion of a draft agreement on the European Exchange Rate Mechanism (ERM II), which will have to be approved by the ECB; 5) organisational progress with regard to the infrastructure of the ESCB and payment systems (the TARGET system for automated transfers of funds between banks in real time); 6) publication of the final designs for the euro banknotes. In conclusion, the report considers that during its brief existence (since 1994) the EMI has successfully made the technical preparations for the introduction of the single currency. The foundations laid by the Institute should help its successor, the Central Bank, to become a sound institution capable of guaranteeing price stability in the euro zone.