Impact of currency fluctuations on the internal market

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OBJECTIVE: to highlight the impact of currency fluctuations on economic growth and the internal market. CONTENT: the European Union has seen serious currency fluctuations since the summer of 1992. In three years, five currencies have depreciated by 20% or more in relation to the more stable currencies in the EMS. The importance of these developments justifies raising this question at the highest level. Analyzing the impact of intra-European currency fluctuations on growth and the internal market, the Commission report highlights several phenomena: - a slowdown in growth in the order of 0.25 to 0.5 percentage points in 1995 (including the dollar effect); - a variable effect on the development of the cost of competitiveness; - a secondary effect on trade balances, although appreciable on margin performances; - finally, a more visible impact at sectoral and regional level (e.g. automotive and clothing sectors, border regions close to countries whose currency has depreciated). The Commission concludes on the basis of this finding that currency fluctuations cause the EU economy certain problems, even if they have nothing to do with the elimination of trade barriers. It recommends attacking the causes of fluctuations which are directly linked to the lack of progress achieved in convergence, especially with regard to reducing public deficits. The solution to these disturbances lies in economic convergence, which is essential if a strong, stable single currency is to be introduced and, more particularly, in long-term compliance with the inflation and public deficit criteria set out in the Treaty. In this respect, the Commission will ensure that the mechanisms of the TEU are strictly applied in order to strengthen this convergence. The Commission concludes the report by stating that it considers that the single currency is an indispensable complement to the single market. Economic and monetary union is the right response to the difficulties which currency fluctuations cause for the European economy. Any other solution would risk being worse than the problems which it was seeking to resolve.