1999 annual economic Report. European Union at the arrival of the euro: growth, employment and stability

1999/2016(COS) - 22/01/1999 - Non-legislative basic document

PURPOSE: to present the Commission's 1999 Annual Economic Report. CONTENT: In presenting the Commission's view on the current economic situation, by examining the main challenges in the years to come, this report is intended to initiate a debate on the policy options to be considered in the forthcoming 1999 Broad Economic Policy Guidelines. With the third and final stage of EMU and the adoption of the single currency by eleven Member States 01/01/99, one of the highest priorities of economic policy in the European Union has been realised. Now, raising employment and reducing unemployment is the principal social, economic and political aim of the Union. The report notes that the process of EMU has produced sound economic foundations. All economic actors now recognise that price stability and sound public finances are prerequisites to durably achieve high economic growth and employment. In the last two years, the EU economy has already been benefiting from improved economic convergence and greater stability. Despite the progress made, the EU's economic performance has not been unequivocally positive in all areas. Furthermore, although overall economic activity largely unfolded as expected, short-term economic prospects in the European Union have become less promising during 1998. The financial crises in Southeast Asia, Russia and Latin America continue to threaten a fragile world economic situation have begun to affect economic activity in the EU and are overshadowing short-term growth forecasts. According to the Commission, it is therefore likely that a downward revision will be necessary in the next forecast in the spring. A persistant high rate of unemployment remains without doubt the Union's major deficiency. For this reason, the key priority of economic policy must be to achieve a substantial and lasting reduction in unemployment whilst significantly increasing the employment rate. The introduction of the euro will not in itself solve the Union's unemployment problem. Nonetheless, the Commission considers that the single currency will strengthen the Union's capacity to foster employment, growth and stability. In order to exploit fully the positive gains from EMU, the Commission considers it essential to continue to pursue prudent and coordinated economic policies, as called for by the Vienna European Council in December 1998. The Commission proposes that policy responses should include: - continued appropriate wage developments; - continued budgetary consolidation efforts; - stability-oriented monetary policy supporting growth; - the necessary continuation of structural reforms; - reform of the international financial system. Furthermore, it will be necessary to both deepen and strengthen economic policy coordination within the agreed framework and involving an intensive dialogue between all actors, including, where appropriate the European social partners. The current situation calls for an appropriate and more coordinated economic policy response in the Member States and at the euro level. In this respect, the Commission points out that the macroeconomic policy mix in the euro area is framed by a several-tier decision process: the single monetary policy is set by the ECB for the euro area as a whole, budgetary policy remains the responsibility of national governments, but will have to abide by the provisions of the Treaty and the requirements of theStability and Growth Pact, while the social partners will continue to determine wage setting at the national, regional, sectoral or even at a more decentralised level following their respective traditions. Structural policies will essentially remain the province of national governments.