Procedure file

Basic information

COS - Procedure on a strategy paper (historic)	1997/2065(COS)	Procedure completed
Economic and monetary union EMU: external aspects Subject 5 Economic and monetary system 5.10.01 Convergence of economic policies, public deficit, interest rates 5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU) 5.20.02 Single currency, euro, euro area		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs, Industrial Policy		26/02/1997
		PSE RUFFOLO Giorgio	
	Committee for opinion	Rapporteur for opinion	Appointed
	RELA External Economic Relations		22/07/1997
		PPE PORTO Manuel	
Council of the European Union			

Key events

23/04/1997	Non-legislative basic document published	SEC(1997)0803	Summary
13/06/1997	Committee referral announced in Parliament		
29/10/1997	Vote in committee		Summary
29/10/1997	Committee report tabled for plenary	A4-0338/1997	
13/01/1998	Debate in Parliament		
13/01/1998	Decision by Parliament	T4-0005/1998	Summary
13/01/1998	End of procedure in Parliament		
02/02/1998	Final act published in Official Journal		

Technical information

Procedure reference	1997/2065(COS)
Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper

Legal basis	Rules of Procedure EP 142
Stage reached in procedure	Procedure completed
Committee dossier	ECON/4/08821

Documentation gateway

Non-legislative basic document		SEC(1997)0803	23/04/1997	EC	Summary
Committee report tabled for plenary, single reading		A4-0338/1997 OJ C 371 08.12.1997, p. 0002	29/10/1997	EP	
Text adopted by Parliament, single reading		T4-0005/1998 OJ C 034 02.02.1998, p. 0015-0033	13/01/1998	EP	Summary
Economic and Social Committee: opinion, report		CES0458/1998 OJ C 157 25.05.1998, p. 0065	26/03/1998	ESC	

Economic and monetary union EMU: external aspects

OBJECTIVE: to provide an initial analysis of the external aspects of the introduction of the euro. SUBSTANCE: given the economic importance of the euro area - whatever its initial size - the introduction of the single currency will also have a significant impact on Member States outside this area as well as on third countries. The Commission's discussion paper presents an initial economic analysis of the likely impact of the euro on developments in the international economy and, more specifically, in the international monetary system. While the analysis outlined the main issues, it was not the intention to reach firm conclusions at this stage but rather to stimulate the debate. According to the European Commission, the introduction of the euro would have several consequences at international level: (1) the euro area: an economic entity comparable to the United States: the euro area (supposing all 15 Member States join) would have an economic and commercial clout similar to that of the US and greater than that of Japan. In 1996, the Union's share of the GDP in the OECD amounted to 38.3%, as against 32.5% for the US and 20.5% for Japan. If intra-Community trade was excluded, the European Union would account for 20.9% of world trade, as compared with 19.6% for the United States and 10.5% for Japan. As a result of monetary union, Europe would possess its own internal market of great economic and commercial importance. The euro bond market should, in fact, become one of the largest financial markets in the world; (2) less sensitivity to international exchange-rate fluctuations: European economies are very vulnerable to fluctuations in the international exchange markets because a great deal of European economic activity is based on international trade (exports account for around 30% of European GDP, against 8% for the US and 9% for Japan). After the introduction of the euro, the corresponding figure for the EU would be about 10%. European companies will therefore be less affected by exchange-rate fluctuations on the world markets; (3) a gradual fall in the international domination of the dollar: the dollar's dominant position has been gradually eroded since the early 1980s, and the introduction of the euro should accelerate this process on three levels: (a) commercial transactions: the euro will represent an attractive alternative to the dollar for trade, especially with the countries of Central and Eastern Europe, the Mediterranean Basin and Africa; (b) central bank reserves: the euro should become a particularly attractive reserve currency; (c) composition of portfolios: between 1981 and 1995, European currencies' share of the world private portfolio had increased from 13% to 37%, while the dollar's share fell from 68% to approximately 40%. This trend should continue with the introduction of the euro; (4) no harsh effects on exchange rates: the document, after considering the impact of the introduction of the euro on the markets, concluded that there would be no excessive or untimely fluctuations in exchange rates. If based on sound economic principles and on an anti-inflationary, institutional framework, the euro would strengthen the stability of the international monetary system; (5) an opportunity to strengthen international macroeconomic cooperation: the introduction of the euro would present an opportunity to enhance international surveillance and coordination of economic and monetary issues with a view to ensuring more stable exchange rates. The document considered the institutional framework on which the euro's exchange rate policies would be based. It discussed, in particular, the responsibilities of the Council, the European Central Bank and the Commission in terms of the various possible forms for exchange relations between the euro and third countries' currencies. The document concluded that the current managed floating system would be maintained. It underlined, however, that certain issues had still to be resolved, particularly the way in which the euro's exchange-rate policy would be defined. The consequences of the introduction of the euro for international bodies, such as the IMF and G7, would also be looked at in detail. ?

Economic and monetary union EMU: external aspects

There may be a period marked by exchange rate instability because of the unpredictable behaviour of institutional investors, immediately after the introduction of the single currency, warns the Committee in its report on the Commission's working paper on the external aspects of economic and monetary union. To counter such threats both during the transitional period and later, the report, drafted by Mr Giorgio RUFFOLO (PES,) it advocates that the EU pursues a monetary policy aimed at moderating long-term interest rates to ensure that the exchange rate of the euro is not overvalued vis-à-vis the dollar. As for the external value of euro, the Committee underlines that it must be linked to the basic objective of stability of its internal value, which is the primary mission of the European Central Bank (ECB). In order to maintain an exchange rate with the dollar that reflects trade patterns and other economic fundamentals, the Committee calls on the ECB to avoid trying to manipulate the exchange rate for competitive purposes, although this should not preclude it from intervening in cases of occasional currency turbulence. In case of more serious exchange rate disturbances, the Committee demands that the EU should be given the necessary instruments, which, apart from the competence of the Council, also should include a right of initiative for the Commission. Noting that the relevant Treaty provisions are unclear, the Council and Commission are called upon to reinterpret Article 109 of the Treaty in order to establish more effective, streamlined procedures to enable the Ecofin Council to exercise its responsibilities for exchange rate policy. Finally, the report calls for greater co-operation with, in particular, the United States and the other G7 members to try to reach agreements on an exchange rate policy that would combat currency speculation and promote monetary stability. However, for this to happen, the Committee stresses the need of improving EU representation in the relevant international fora. ?

Economic and monetary union EMU: external aspects

In adopting the report by Mr Giorgio RUFFOLO (PSE, I), the European Parliament expressed the view that, in the third stage of EMU, a monetary policy must be pursued aimed at moderating long-term interest rates so as to encourage an exchange rate for the euro that was not overvalued vis-à-vis the dollar. Parliament considered that, in order to maintain an exchange rate with the dollar which reflected the relations between economic fundamentals as accurately as possible, the European Central Bank should avoid interventions designed to manipulate the exchange rate for competitive purposes, but that it should, on the other hand, intervene to deal with occasional turbulence using normal monetary policy instruments. In the event of more substantial exchange rate disturbances, Parliament called for the requisite measures in response to accord with the general economic policy of the Union and to include, in addition to the competence of the Council of Ministers, the exercise of a right of initiative on the part of the Commission. It called, therefore, on the Council and the Commission to reinterpret Article 109 of the Treaty with a view to establishing more effective procedures to enable the Ecofin Council to exercise its key responsibilities for exchange rate policy. Parliament called for greater cooperation with the United States with the aim of concluding a formal agreement on an exchange rate system which would discourage speculators and promote monetary stability. To this end, it stressed the need for better representation of the Union in international fora. ?