


Procedure file

Basic information		
CNS - Consultation procedure Recommendation	1998/0128(CNS)	Procedure completed
Euro 1999: convergence, Economic and monetary Union EMU. Commission and EMI reports		
Subject 5.10.01 Convergence of economic policies, public deficit, interest rates		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs, Industrial Policy	PPE VON WOGAU Karl	22/01/1997
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets		
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2087	01/05/1998

Key events			
25/03/1998	Legislative proposal published	COM(1998)1999	Summary
03/04/1998	Committee referral announced in Parliament		
15/04/1998	Vote in committee		Summary
15/04/1998	Committee report tabled for plenary, 1st reading/single reading	A4-0130/1998	
29/04/1998	Debate in Parliament		Summary
30/04/1998	Decision by Parliament	T4-0233/1998	Summary
01/05/1998	Act adopted by Council after consultation of Parliament		
01/05/1998	End of procedure in Parliament		
11/05/1998	Final act published in Official Journal		

Technical information	
Procedure reference	1998/0128(CNS)
Procedure type	CNS - Consultation procedure

Procedure subtype	Legislation
Legislative instrument	Recommendation
Legal basis	EC before Amsterdam E 109J-p2
Stage reached in procedure	Procedure completed
Committee dossier	ECON/4/09943

Documentation gateway

Legislative proposal	COM(1998)1999	25/03/1998	EC	Summary
Supplementary legislative basic document	N4-0201/1998	25/03/1998	ECB	Summary
Committee report tabled for plenary, 1st reading/single reading	A4-0130/1998 OJ C 152 18.05.1998, p. 0004	15/04/1998	EP	
Text adopted by Parliament, 1st reading/single reading	T4-0233/1998 OJ C 152 18.05.1998, p. 0016-0033	30/04/1998	EP	Summary

Additional information

European Commission	EUR-Lex
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Final act

EP/Council Recommendation 1998/316 OJ L 139 11.05.1998, p. 0021-0027

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The European Monetary Institute (EMI) also submitted its report on convergence, pursuant to Article 109j of the Treaty. This report which contains many graphs and statistical tables considers in particular the key aspects of convergence in 1998 in all the Member States of the Union and notes the considerable progress made by countries with regard to convergence, while confirming that, even after the introduction of the euro, efforts to manage public finances will have to be continued. With regard to Italy, Belgium and Greece, the report recognizes that there are clear areas for concern at present as to whether the ratio of debt to GDP will reduce sufficiently to come into line with the reference value at a satisfactory pace and whether the sustainability of the budgetary situation has been achieved. For Italy in particular the EMI stresses that significant and regular budget surpluses will be required to reduce the debt to GDP ratio to 60% within an adequate timescale. The report also stresses the need for France and Germany to make further progress in the area of budgetary consolidation. ?

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OBJECTIVE: presentation of the European Commission's report on progress towards convergence and the recommendation with a view to the transition to the third stage of economic and monetary union. **SUBSTANCE:** the Commission report deals with the progress made by the Member States in the fulfilment of their obligations regarding the achievement of economic and monetary union. In accordance with the Treaty this assessment determines whether a high level of convergence has been achieved, by analysing the extent to which each Member State has satisfied the convergence criteria set in Article 109j of the Treaty. On the basis of this examination and the report of the European Monetary Institute, the Commission recommends to the Council that the following Member States adopt the euro from 1 January 1999: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. Greece and Sweden have also made progress with regard to convergence. They are called on to continue their efforts so that they can rejoin the initial group of participants in the euro after a new examination of the progress made. This examination will take place in two years, or early if one of these countries so requests. The situation of the United Kingdom and Denmark will be assessed when these countries notify the Council of their intention to participate in the third stage of EMU. It should be noted that the Commission based its recommendation on the following findings and figures: - inflation is at an historic low level: in 1997 average annual inflation fell to 1.6% in the Union (only one country was above this figure); - the improvement in the government deficits is sustainable: the average deficit is 2.4% and in 14 Member States the deficit is 3% or below; - government debt is falling in the euro zone: the average debt is 75% of GDP in 1997 (it is less than 60% in France, Finland and Luxembourg; in Italy and Belgium it is higher than 100% but has started to fall); - stability in the exchange rate mechanism is excellent: nine currencies have more or less respected the + or - 2.25% fluctuation range; - the long-term interest rates are at an exceptionally low level: in 1997 the average was 5.9% in the eleven countries selected (fourteen Member States had long-term interest rates below the 7.8% reference rate). Lastly, the Commission report stresses: - the importance of the euro zone, which will be one of the main economic and trading blocs in the world with 290 million inhabitants (268 in the United States, 126 in Japan), which corresponds to 5% of the world population (United States 4.6%, Japan 2.2%); a GDP representing 19.4% of world GDP (19.6% for the United States, 7.7% for Japan); foreign trade equivalent to 18.6% of world

trade (16.6% for the United States and 8.2% for Japan); - the encouragement which the euro gives to the sustainable nature of growth and employment, the reduction in deficits running in parallel with the net increase in employment. ?

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By a majority of two votes, the Committee adopted the report drawn up by Mr Karl von WOGAU (EPP, D) on the Commission recommendation on those countries meeting the criteria for Economic and Monetary Union (EMU). Having examined economic data for the Member States, the Committee applauds the considerable progress made by them on convergence and approves the Commission's recommendation that the third stage of EMU should begin on 1 January 1999 with eleven Member States which fulfil the necessary conditions: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The report was adopted by roll call vote with 27 votes in favour, 25 against and 3 abstentions. The opposition came primarily from the PES Group, which, according to Mr Alan DONNELLY (PES, UK), while it supported the general conclusions of the report, felt that some of the amendments adopted went too far by introducing new criteria for EMU membership. Mr von WOGAU welcomed the result achieved after some hard discussions on certain amendments. He hoped that, in the interests of Parliament, there would be a clearer majority when the report was considered by the full House. He insisted on the need to step up the battle against unemployment. Although employment is not a formal criteria in the Maastricht Treaty, Parliament should nonetheless ask Council to support the idea of "European Employment". Mr von Wogau said he was confident that the role to be played by Parliament in the final decisions at the beginning of May would be understood by the citizens: the European Parliament was the "Democratic Forum" of Economic and Monetary Union. The Committee notes that all eleven countries fulfil the inflation and interest rate criteria and, as regards exchange rate stability, none of the countries participating in the EMS for at least two years has devaluated its currency against other Member States' currencies during that period. The position is the same for the two countries (Finland and Italy) which will have belonged to the EMS for two years by 1 January 1999. Turning to the budgetary positions of the Member States, the Committee agrees with the Commission's assessment that all eleven countries meet the budget deficit criterion. On the other hand, the Committee notes that only three candidate countries have a public debt below the 60% reference value and that, according to the European Monetary Institute, the overall debt situation in two countries continues to give cause for concern. However, taking into account the trends in recent years, debt structure and 1998 budgets, and on the basis of the convergence programmes submitted by the Member States, the Committee gives an overall positive judgement. At the same time, it calls for concrete commitments by the governments concerned to deepen the process of budgetary consolidation. It also stresses that the Stability and Growth Pact must be strictly observed by all EMU participants. On the other criteria mentioned in Article 109j(1) of the Treaty, the Committee expressed its satisfaction at the positive situation as regards balance of payments, but emphasised that more work still was needed to achieve better integration of markets. Although this is not a formal criterion in the Treaty, the report also highlights the challenge posed by the high unemployment, which should be included in the overall assessment of economic trends in Member States. It is crucial, the Committee concluded, to reduce unemployment resolutely since it may jeopardize the main objectives of EMU. ?

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Welcoming the fact that the criteria defined by the Maastricht Treaty had allowed a culture of stability to develop in Europe, the rapporteur considered that 11 candidate countries had qualified for entry into monetary union. He also stressed that the financial markets were counting on a stable start for the euro at the beginning of the following year and concluded by stating that the single monetary policy also required more harmonised economic and fiscal policy. Commissioner de Silguy firstly looked back at the approach which had led to the launch of EMU. He therefore recalled: - the political will expressed by the European Council since 1995 which had allowed the Member States to improve their public finances and reduce their deficits; - the convergence as a result of which the average deficit of the 11 countries recommended for entry into monetary union had reduced to 2.5%. This had been accompanied by an effective reduction in public debt and interest rates at historically low levels; - the systematic preparation for the introduction of the euro by establishing the euro's legal framework and the Stability and Growth Pact, and the preparation of the coins and notes. The Commissioner also cited the objectives for the third phase: continuation of the budgetary improvement, the challenge of employment to which the approach developed for EMU should henceforth be applied and the international dimension of the euro and the steps to ensure acceptance of the new currency by everyone. Repeating the words of one speaker, Mr de Silguy concluded that "We have made the euro and now we have to make Europe".

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In adopting the report by Mr Karl VON WOGAU (PPE, D) by 402 votes to 79, with 27 abstentions, the European Parliament approved the Commission recommendation that the third stage of Economic and Monetary Union begin on 1 January with the eleven Member States which met the necessary criteria, namely: Belgium, Germany, Finland, France, Italy, Ireland, Luxembourg, the Netherlands, Austria, Portugal and Spain. Accordingly, it called for the independent European Central Bank to be founded as soon as possible and for monetary policy sovereignty to be transferred to it on 1 January 1999. Parliament called on the Council to respect its commitments and propose a single President of the European Central Bank at its Summit on 2 May. Parliament's resolution was based on the following points: Eleven Member States met the criteria regarding both inflation rates (below 2%, which was an indicator of price stability) and interest rates (which were well below the reference value of 7.8%). Moreover, none of the countries which had participated in the exchange rate mechanism for at least two years had during that period devalued its currency in relation to the currencies of other Member States; the same was true of the two countries (Italy and Finland) which on 1 January 1999 would have belonged to the exchange rate mechanism for two years. As regards the public deficit, none of the eleven had a deficit exceeding 3%. As regards indebtedness, it was necessary to assess whether all the candidate countries were progressing adequately and sufficiently rapidly towards the reference value of 60% or whether the overall assessment of the economic and budgetary situation of the country concerned permitted a favourable decision. The Commission took the view that none of the candidate countries had an excessive deficit. According to the European Monetary Institute, the trend in overall indebtedness in two countries still gave cause for concern. Parliament therefore insisted that the governments concerned must commit themselves in practical terms to pursue the consolidation process. It called on them likewise to respect strictly the stability and growth pact. Parliament expressed its satisfaction at the positive balance-of-payments situation but stressed that greater integration of markets was needed. It recalled that employment, albeit not a criterion referred to in the Maastricht Treaty, must be taken into account in the overall assessment of the economic situation of the Member States. The high unemployment which existed in most of the 11 countries must be combated, as it represented a threat to the attainment of the

principal objectives of EMU. In the context of employment policy, substantially improved occupational mobility and adaptability was of particular importance. To reduce unemployment, investment-induced growth must be buttressed by life-long skills training based on a strengthened education system, structural employment measures and supportive tax/benefit systems. ?