


Procedure file

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The euro area in the world economy and the developments in the next years		
Subject 5.10 Economic union 5.20.02 Single currency, euro, euro area		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs	ELDR GASÒLIBA I BÖHM Carles-Alfred	01/10/2002
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs		

Key events			
19/06/2002	Non-legislative basic document published	COM(2002)0332	Summary
19/12/2002	Non-legislative basic document published	COM(2002)0747	Summary
19/12/2002	Committee referral announced in Parliament		
20/05/2003	Vote in committee		Summary
20/05/2003	Committee report tabled for plenary	A5-0169/2003	
03/07/2003	Debate in Parliament		
03/07/2003	Decision by Parliament	T5-0338/2003	Summary
03/07/2003	End of procedure in Parliament		

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Documentation gateway

Non-legislative basic document		COM(2002)0332	19/06/2002	EC	Summary
Non-legislative basic document		COM(2002)0747 , OJ C 036 15.02.2003, p. 0002-0017	19/12/2002	EC	Summary
Document attached to the procedure		B5-0640/2002	19/12/2002	EP	
Document attached to the procedure		B5-0016/2003	04/02/2003	EP	
Committee report tabled for plenary, single reading		A5-0169/2003	20/05/2003	EP	
Text adopted by Parliament, single reading		T5-0338/2003 OJ C 074 24.03.2004, p. 0671-0871 E	03/07/2003	EP	Summary

The euro area in the world economy and the developments in the next years

PURPOSE : to present the Communication from the Commission on the euro area in the world economy - developments in the first three years. **CONTENT** : this communication notes that the introduction of euro notes and coins at the beginning of this year was a landmark achievement in the history of European integration. The benefits of Economic and Monetary Union (EMU) have been felt already for some time. EMU is based on a commitment to sound macroeconomic policies, which have helped to create a new culture of economic stability in Europe. In turn, this has enabled Europe to weather the recent slowdown in the world economy. Furthermore, thanks to the euro, the kind of damaging intra-European exchange rate tension that often characterised previous episodes of adjustment to external shocks has been avoided. With the euro in place, the citizens of euro area countries can now look forward to the benefits of increased price transparency, more intense competition in the market place and greater financial integration in Europe. In the first two years of the single currency, GDP in the euro area grew by around 3% a year, somewhat above potential, without creating the kind of imbalances that threaten the sustainability of growth elsewhere in the world. In 2001, GDP growth fell sharply as a result of the slowdown in the global economy. Nevertheless, employment creation held up surprisingly well. This reflects, in part, labour market reforms that were carried out in preparation for the introduction of the euro. Whilst inflation has risen from just over 1% in 1999 to around 2.5% in 2001, this mainly reflects a series of one-off adverse shocks, such as food price increases due to bad weather. The available evidence suggests that the euro cash changeover has had at most a marginal impact on overall consumer price inflation in the euro area. Compared to the early 1990s, the macroeconomic policy framework in the countries that now constitute the euro area has been greatly enhanced. This has enabled us to weather the global growth slowdown through a judicious adjustment of the policy mix. The first component of this judicious policy mix is monetary easing, consistent with the ECB's objective of maintaining price stability. The second component is prudent fiscal policy that has relied on the working of automatic stabilizers, where appropriate, with the commitment by Member States under the Stability and Growth Pact to achieve budgetary positions that are close to balance or in surplus over the medium term. In addition, strengthened economic (i.e. fiscal and structural) policy coordination can be achieved by streamlining processes where appropriate and implementing the measures suggested by the Commission and endorsed by the Barcelona European Council. The early years of EMU, as well as the years in the run up to monetary union, have seen an impressive degree of wage moderation. This has contributed to the dynamism in job creation together with widespread product and labour market reforms in most euro-area countries. However, the progress of reforms has been uneven, and there is still high structural unemployment in some Member States. Whilst area-wide wage developments must be compatible with overall price stability, there is also a need for flexibility to reflect productivity differences and factors specific to regions or sectors. Investment is crucial for the euro-area's growth potential over the medium and longer term. It is still too soon to draw strong conclusions about the impact of EMU on investment. Nevertheless, EMU and the policy framework in which it is embedded, are likely to positively affect major determinants of investment such as profitability and real interest rates. EMU will improve financing conditions via greater financial integration. It will also increase the allocative efficiency of investment through reduced exchange rate risk. The pace of integration of euro-area financial markets has clearly accelerated since the changeover to the euro. Deeper integration, due in part to the euro, is reflected in more homogenous markets, a wave of consolidation among intermediaries and exchanges and the emergence of new and innovative products and techniques. The EU has set an ambitious deadline, the year 2005, for the implementation of the Financial Services Action Plan (FSAP) a package of 42 measures to improve the functioning of the EU financial system. An even tighter deadline has been set for actions relating to securities markets and for the Risk Capital Action Plan. The new decision-making framework for securities legislation, adopted on the basis of the proposals by the Lamfalussy Committee should ensure that legislation can adapt to rapidly changing financial markets. The euro immediately became the world's second leading international currency after its launch. Due to network and scale effects, the US dollar is likely to remain the dominant international currency for the time being. Nevertheless, there are a number of factors that support the usage of the euro as an international currency. The first is the large size of the euro-area economy. The second is the stability attached to the euro, which reflects the sound economic fundamentals in the euro area, underpinned by the stability-oriented policy framework under EMU. The third is the ongoing integration of national financial markets in Europe into broad, deep and liquid pan-European financial markets.

The euro area in the world economy and the developments in the next years

PURPOSE : to report on the impact of euro notes and coins one year after their introduction. **CONTENT** : according to the Eurobarometer survey conducted in November 2002, the majority of people (51.5%) in the euro area indicated having no difficulties at all with the use of the euro. This result ranges from 71.7% in Ireland to 36.5% in France. The proportion of those who have no difficulties at all is higher among men

(57%) than among women (46.4%). A large majority of people quickly got used to the euro cash: 92.8% find it easy to handle banknotes and more than two thirds (68.8%) have no problems handling the euro coins. The vast majority of Europeans believe that the number of existing denominations for banknotes (83.7%) and for coins (53.5%) is just right. On the question of satisfaction with the euro, 49.7% of euro area citizens consider themselves to be "very" or "rather" happy that the euro has become their currency. 11.1% are neither happy nor unhappy, while 38.7% indicate being quite or very unhappy. Among eurozone countries, the approval rate is the highest in Luxembourg (84.2%) and lowest in Germany (27.8%). People are now well acquainted with the coins from other euro area countries. In regions along the borders, in big cities and in tourist areas, a rising share of the coins in circulation are of 'foreign' origin. The different national faces of the coins are clearly a source of interest and 92.6% of the respondents confirm that they have no difficulties with the variety of coins. The interest of coin collectors was also directed towards the 80 "genuine" euro collector coins that were issued during 2002 and which are not destined for regular payment purposes. The figures appear to show that the introduction of euro cash favours cross-border trade and price transparency. 12% of consumers are more interested in buying goods in another EU country. The share of people who feel encouraged to buy abroad ranges from 31% in the Netherlands to 6% in Denmark. The figures seem to be higher in smaller member States (Austria, Luxembourg and Ireland). With regard to corporate behaviour, 32% of businesses in EU-15 indicate that after the introduction of euro banknotes and coins, they are more interested in selling abroad. The figure is highest for Portuguese business (57%) followed by Irish (50%), Swedish (48%) and Austrian businesses (47%). At the lower end are businesses from the UK, Denmark and Finland. 53% of European travellers indicate taking euro cash with them when leaving the euro area, as opposed to only 16% taking US-Dollars. It appears that payment with euro cash is regularly accepted in the three Member States outside the euro area (DK, S, and UK) as well as in the 12 accession countries, although this practice is usually confined to the capitals and to tourist areas. Some shopkeepers display prices in euro. In certain areas in the Balkan region, such as Montenegro and Kosovo, the euro is de facto used as the local currency, often as replacement for the former D-Mark. The introduction of notes and coins has had a more limited impact outside Europe. The euro is accepted as a means of payment in the tourist areas of some American, Asian and African countries, sometimes in connection with the display of prices in euro. The report points to a discrepancy between actual and perceived inflation after the introduction of euro notes and coins. In particular, a detailed statistical analysis of price evolutions based on the harmonised index of consumer prices (HIPC) indicates that the impact of the introduction of euro banknotes and coins on prices ranges between 0.0 and 0.20 %. However, most studies also point to more significant price jumps in the service sector, particularly related to tourism. Price rises in cafes and restaurants correspond to 4.3% on a year on year basis, i.e. almost double the general inflation rate (measured by HIPC). The Eurobarometer survey showed that 84.4% of respondents in the euro area thought that prices had been converted to the detriment of consumers. Whether the introduction of euro cash has influenced the payment habits of the population is not clear at this stage. A significant increase in the use of non-cash payments has been noticed in the course of 2002, but it is difficult to attribute this shift exclusively to the euro. The average amount withdrawn at ATMs (Automatic Teller Machines) also seems to have increased. 42.2% of consumers already calculate mainly in euro, but this percentage drops to 12.5% when important purchases are being made (e.g. a house or a car), as most people continue to calculate in national currencies for important transactions. While a small majority (50.6%) of consumers no longer wants shopkeepers to display prices in old and new currency, 47.2% still prefer the dual display of prices. In agreement with Eurocommerce, the Commission recommends that the retail sector discontinue the dual display by 30 June 2003 at the latest, while informing their customers well in advance of this change. The same approach is recommended in other sectors where prices and amounts are still being displayed in national currency and in euro. This is the case on the invoices of certain companies and on the account statements provided by financial institutions to their customers.?

The euro area in the world economy and the developments in the next years

The committee adopted the own-initiative report by Carles-Alfred GASOLIBA I BÖHM (ELDR, E) on the international role of the euro zone and the first assessment of the introduction of banknotes and coins. It called for an investigation into possible malpractice which may have led to inflationary pressures during the changeover process. On the whole, however, the committee believed that "the benefits of the single currency clearly outweigh any disadvantages". It also recommended the setting up of a working group by the Commission and the ECB to assess the need for a one-euro bank note. In addition, MEPs repeated their call for a single representative for the euro zone, to enable the latter to speak with one voice in all important multilateral and financial fora such as the G7 or the IMF. This person, suggested the report, could be a Vice-President of the Commission. ?

The euro area in the world economy and the developments in the next years

The European Parliament adopted a resolution based on the own-initiative report by Carles-Alfred GASOLIBA I BÖHM (ELDR, E) on the international role of the euro zone. (Please refer to the document dated 19/05/03). Parliament felt that the ECB should take the necessary measures if the financial and monetary stability of the euro zone is threatened. Particular attention should be paid to the official use of the euro by the public and financial sectors of non-euro zone countries. Parliament called for a feasibility study to evaluate whether invoicing commodities and energy supplies in euros - in order to avoid the double price/exchange rate volatility - is beneficial to the euro zone. It also asked for active measures aimed at increasing international trade invoicing in euros so as to benefit euro zone exporters and importers, by giving more certainty to commercial transactions and simplifying administrative procedures. With regard to the economy of the euro zone, Parliament urged Member States increasingly to regard their economic policies as a matter of common concern. There must be a consistent implementation of the Broad Economic Policy Guidelines. It emphasised the importance of promoting a culture of entrepreneurship that takes into account the importance of SMEs for the euro zone economy as employment creators, as well as greater investment aimed at increasing productivity levels. This will ultimately create a level playing field that will enable the ECB to react more quickly to shocks. Action to facilitate labour mobility, both geographical and occupational was also emphasised. Finally, Parliament felt that more small denomination notes (5 and 10 euro) were needed when withdrawals are made from ATMs and expressed its doubts about the issue of the 500 euro note and the link to money laundering.?