Procedure file

Basic information

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2007 annual report on the euro area Subject 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		13/03/2007
		PSE ROSATI Dariusz	
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs	ALMUNIA Joaquín	

Key events

03/05/2007	Non-legislative basic document published	COM(2007)0231	Summary
21/06/2007	Committee referral announced in Parliament		
27/06/2007	Vote in committee		Summary
28/06/2007	Committee report tabled for plenary	A6-0264/2007	
11/07/2007	Debate in Parliament		
12/07/2007	Results of vote in Parliament		
12/07/2007	Decision by Parliament	T6-0348/2007	Summary
12/07/2007	End of procedure in Parliament		

Technical information

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Documentation gateway

Non-legislative basic document		COM(2007)0231	03/05/2007	EC	Summary

Committee draft report		PE390.394	24/05/2007	EP	
Amendments tabled in committee		PE390.561	11/06/2007	EP	
Committee report tabled for plenary, single reading		A6-0264/2007	28/06/2007	EP	
Text adopted by Parliament, single reading		T6-0348/2007	12/07/2007	EP	Summary
Commission response to text adopted in plenary		SP(2007)4170	29/08/2007	EC	
Commission response to text adopted in plenary		SP(2007)4733	24/09/2007	EC	

2007 annual report on the euro area

PURPOSE: to present the annual statement on the Euro area 2007.

CONTENT: since last year's Annual Statement on the Euro Area, the euro-area's economic recovery has gone from strength to strength. The euro-area grew by 2.7% last year, its fastest growth rate since 2000, and well-above its long-term average. Employment growth accelerated to around 1.5% in 2006 in the euro area, yielding an increase of close to 2 million new jobs. Inflation remained around 2% in 2006 but it came down towards the year's end as energy prices eased.

The euro-area's positive growth performance partly reflects the current cyclical upturn but it may also show that structural reforms are beginning to take effect. There are signs of an increased resilience to global disturbances. The employment effect of recent growth has been particularly intense. In December 2006, the unemployment rate dropped to 7.5%, its lowest level in 15 years. Labour productivity growth in the euro area averaged 1% in 2006, compared with an annual average rate of 0.7% during the previous decade, and several factors indicate that this rebound could be more than just cyclical in nature. Overall, these developments suggest that Member States are being rewarded for their efforts to, inter alia, increase labour participation rates, boost R&D and innovation, develop human capital and create a more attractive and competitive business environment. They also show the benefits of a macroeconomic framework that is designed to enhance stability and promote greater certainty about medium-term economic prospects.

The prospects for continued economic growth in the euro area are more favourable in 2007 than they have been for many years.

These undoubted achievements put EMU on a strong footing to face the challenges which still lie ahead. These include raising potential growth, enhancing adjustment to economic shocks, putting Europe's fiscal house in order and ensuring a successful enlargement of the euro area.

The main issues dealt with in the report can be summarised as follows:

1) More budgetary consolidation and structural reforms: the robust growth performance last year, combined with the consolidation efforts of Member States, particularly those with excessive deficits, led to a greater than expected fall in the euro-area's budget deficit. The average deficit was 1.6% of GDP in 2006, down from 2.5% in 2005. The Commission welcomes the recent agreement by the Eurogroup to build on the better-than-expected budgetary outcomes in 2006 by pursuing more ambitious budgetary targets than those set in the Stability Programmes. Eurogroup ministers have committed to avoid expenditure overruns and use unexpected revenues to reduce government deficit and debt. They also agreed to carefully design fiscal policy plans for 2008 so as to accelerate adjustment towards their medium-term budgetary objectives, for those that have not reached yet them, and for those which have reached them to avoid fuelling macroeconomic imbalances. By honouring these commitments, most euro-area members that have not yet reached their medium-term budgetary objectives would do so by 2008 and 2009 and all members should aim to do so by the end of the decade.

There are growing signs that reforms by euro-area members are bearing fruit. The employment effect of recent growth has been particularly intense. In December 2006, the unemployment rate dropped to 7.5%, its lowest level in 15 years. There is still a need for further structural reforms to raise the area's growth potential and ensure the smooth functioning of EMU. Raising the growth potential is important in view of the challenge posed by an ageing population in Europe. In the next half-century, we will have only two persons of working age for every senior citizen. If the current trends and policies continue, potential growth in the euro area will be reduced from above 2% in the period up to 2010 to around 1% on average over the period 2031-2050.

2) Securing sustained economic growth: as the euro area reaps the fruits of the Lisbon Strategy, it must also sow the seeds of further structural reform. As emphasised by EU leaders at this year's Spring European Council with the adoption of specific recommendations for the euro-area, the Lisbon economic reform agenda is critical for boosting growth and jobs in all 27 Member States but it has an added dimension for the countries that share the single currency. In the first place, economic reforms will reduce inflationary bottlenecks in the euro area and help to sustain the economic recovery. In addition, well-functioning product, labour and capital markets are essential for ensuring a smooth adjustment to country-specific economic disturbances under EMU.

In the area of financial market, the euro area should ensure leadership in stepping up the pace of integration at EU level, adding to the impetus already given by the euro. Labour-market reforms are bearing fruit in terms of employment and participation, but more can be done to facilitate adjustment in relative wages across sectors, promote labour participation and facilitate sectoral and geographical mobility. In the area of product market reform, euro-area members have also made progress but there is a need to further enhance competition, innovation and dynamism.

3) Euro area enlargement: on the 1st of January, Slovenia became of the 13th member of the euro area and the first of the 10 countries that joined the European Union in 2004 to adopt the euro. In February, Cyprus and Malta asked the Commission to carry out an assessment on their readiness to join the euro area in 2008. Slovakia wants to adopt the euro in 2009. Regardless of when Member States plan to adopt the euro, policy makers should maintain macroeconomic stability while sustaining the growth necessary to increase living standards. Pursuing policies in line with the economic framework of the Maastricht Treaty and the Lisbon guidelines will allow Member States to adopt the euro and to prosper in the longer run within the euro area.

4) Showing leadership on global issues: the euro now accounts for a substantial share of foreign-exchange transactions and acts as a reference currency in the managed exchange rate regimes of about 50 countries. The share of the euro in the gross issuance of short-term international debt securities also reached 38.3% in the third quarter of 2006, thereby surpassing the share of the US dollar. As the euro's global weight grows so too must its role in global economic governance. Euro-area representatives have actively participated in the IMF's multilateral consultation process on global imbalance, along with those from the USA, China, Saudi Arabia and Japan. This process of consultation on global imbalances has delivered positive outcomes and there is a now a broad consensus among policy makers on the policy agenda required to tackle the problem of global imbalances. The priority now is for the relevant actors to implement the agreed policy agenda in a timely manner in line with the IMF's multilateral and bilateral consultations.

2007 annual report on the euro area

The Committee on Economic and Monetary Affairs adopted the initiative report by Dariusz ROSATI (PES, PL) on the 2007 annual report on the euro area. The salient issues covered by this report are as follows:

Macroeconomic developments: it welcomes the favourable economic developments achieved in 2006 in terms of growth and employment, resulting in the creation of 2 million new jobs and lower fiscal deficits. It points out that the high unemployment levels and the low participation in labour markets do not allow Europe to respond successfully to current and future challenges in a global economy.

Part of the recovery is driven by structural improvements and the committee welcomes the fact that labour productivity is increasing at a higher rate. It considers, however, that it is too early to draw firm conclusions as to whether the recovery is more cyclical or more structural in nature. Therefore, it calls for a cautious stance in this regard.

It insists that sound fiscal policy is a pre-condition for sustained growth and job creation since low budget deficits and government debt foster low and stable inflationary expectations and help maintain low interest rates. It warns against repeating the policy mistakes of 1999-2001 and therefore calls for the current upswing to be used in two ways in order to achieve the following: to eliminate deficits and accumulate surpluses, which would reduce debt levels as well as to improve the quality of public finance by investing more in education, vocational training, infrastructure, and research and innovation, which would assist in helping to meet the challenges posed by an ageing population.

The risks posed by pro-cyclical policies in some Member States are stressed. The reformed Stability and Growth Pact explicitly requires fiscal consolidation over the economic cycle. The committee notes that procedural or numerical fiscal rules and independent fiscal institutions support fiscal consolidation

and help avoid pro-cyclical policies. The committee emphasises the need to take into account the effects that future increases of interest rates may have on the euro exchange rate and the competitiveness of the European economy.

Functioning of the EMU: MEPs consider that diverging trends in growth, inflation, real exchange rates and employment among Member States may reflect different developments, e.g. demographic trends, different rates of progress as regards the structural reforms, varying growth potentials and catching-up processes. They underline however that large current account deficit in some Member States are symptoms of diverging trends in competitiveness and that the different approaches of economic policy among Members States are key to explaining such differences. They observe that differences in the level of international competitiveness of euro area economies are partly caused by diverging trends in unit labour costs which reflect different developments in productivity and wage dynamics. They call on shareholders and corporate executives to maintain a responsible policy towards remuneration packages and bonuses at the top corporate levels, which tend to grow disproportionately compared to ordinary salary levels, and thus give the wrong signals and discourage support for a responsible wage policy. It is noted that low inflation rates are also an important influencing factor as regards the favourable development of unit labour costs.

The committee calls in this connection for a further integration of the market in goods and services in order to overcome the existing fragmentation of the EMU market into national markets and to achieve a higher level of synchronisation between the economic cycles of the participant economies. It notes that the euro can only retain its long-term strength and credibility on the international financial markets if there is a further rapprochement between the Member States of the euro zone in all areas relevant to monetary stability and urges the Member States of the euro zone, and the social partners in particular, to make greater efforts in this respect, as well as to improve trends in productivity, a factor which is also important in achieving the Lisbon Strategy objectives.

It observes that loose fiscal policies combined with restrictive monetary policy driven by interest rate increases and exchange rate appreciation result in a suboptimal policy mix which may entail excessive macroeconomic costs of stabilisation. It considers that more fiscal tightening would reduce pressure on monetary policy and allow for a better policy mix that would ensure faster economic growth under a given inflation rate.

Structural reforms and the internal market: the committee recalls that an integrated European financial market is essential to ensuring the smooth functioning of the EMU. It dwells, therefore, on the need to complete financial market integration and to remove the remaining obstacles to financial integration in order to create an efficient financial system and improve the euro area's capability to deal with economic shocks. It draws attention to the fact that financial integration may also pose a risk to financial stability if the procedures for crisis prevention, management and resolution remain segmented at national level, making area-wide responses more difficult; reasserts, therefore, in this context the need for an integrated European system of cooperating supervisors as one key element as regards the completion of financial market integration.

The committee calls for a consistent policy which fosters innovation-based growth. It recalls that such a policy requires more investment in infrastructure, research, innovation, lifelong learning and education, more competition on product and services markets, more developed financial sectors and more flexible labour markets while ensuring the required level of social security (flexicurity) in accordance with the renewed Lisbon Strategy, as well as complementary policies aimed at correcting excessive inequalities caused by the reforms.

Enlargement of the euro area: the report welcomes the entry of Slovenia to the euro area on 1 January 2007 and the smooth changeover from the Tolar to the euro. It encourages other new Member States to continue efforts to prepare themselves for entry into the euro area and highlights the benefits stemming from the convergence process and the final adoption of the euro, both for the new Member States and for the euro area as a whole. It considers that issues relating to the euro area should not be focused exclusively on the new Member States and points to the issue of opt outs. There is a need for agreement between Parliament, the Council and the Commission on a clear roadmap for the euro area application procedure in order to ensure a sufficient period of assessment and preparation for all institutions involved, which would increase the confidence of citizens and Member States in the changeover process.

It calls for more effective action to tackle money laundering and fraud and questions the lack of information in the Commission?s regular reports on offshore companies or on their role and importance and requests information on this subject.

MEPs considers that the new Member States may face challenges in joining the euro area especially with regard to the price stability criterion, since inflation may be part of the catching-up process. Therefore, they call on the Council and the Commission to examine the convergence criteria through further analysis of and policy debate on the application of the convergence criteria to prospective new members of the euro area and in the light of the new reality and differences in economic developments.

Governance: MEPs consider it crucial to achieve a better coordination of budgetary policies among Member States over the cycle, notably based on a common calendar and macroeconomic assumptions. They call for the strict and effective implementation of the Stability and Growth Pact. They consider that the specific euro area dimension of structural surveillance associated with the Lisbon Strategy should be strengthened by including measures that are needed to improve the functioning of the EMU. They welcome, as a first step in this direction, the focus on the euro area in the Commission?s Annual Progress Report on the state of implementation of the Lisbon Strategy.

The need to strengthen governance is stressed as well as the process of European integration, in particular within the euro area, as this is the only way to tackle global economic challenges. The Council and the Commission are called upon to ensure, in the future, that the annual report on the euro area delivers a set of policy recommendations providing instruments for a detailed dialogue between the various Community bodies that are involved in strengthening the economic governance of the Union. They believe that the Eurogroup should agree on a roadmap on what should be achieved in the next two years in the euro area.

External representation: the committee emphasises that the euro has emerged as the second most important international currency behind the US dollar. It considers that the wide use of the euro in international bond markets is a key feature of the euro's international role. It regrets, however, that the Eurogroup president, the Commission and the ECB continue to be represented to very different extents in the various international institutions and fora. It considers that further steps are needed before the external representation of the euro area is commensurate with its growing importance in the global economy. A prerequisite for common external representation is the existence of a genuine common economic policy within the euro area and the committee reasserts that the best option for representation of the euro area in the major international financial fora and institutions remains the creation of a single euro area chair.

2007 annual report on the euro area

The European Parliament adopted the initiative report by Dariusz ROSATI (PES, PL) on the 2007 annual report on the euro area. The salient issues covered by this report are as follows:

The report welcomes the favourable economic developments achieved in 2006 in terms of growth and employment, resulting in the creation of 2 million new jobs and lower fiscal deficits. It points out that the high unemployment levels and the low participation in labour markets do not allow Europe to respond successfully to current and future challenges in a global economy. MEPs consider that it is too early to draw firm conclusions as to whether the recovery is more cyclical or more structural in nature. Therefore, it calls for a cautious stance in this regard.

Insisting that sound fiscal policy is a pre-condition for sustained growth and job creation, the Parliament calls for the current upswing to be used in two ways in order to achieve the following: to eliminate deficits and accumulate surpluses, which would reduce debt levels as well as to improve the quality of public finance by investing more in education, vocational training, infrastructure, and research and innovation, which would assist in helping to meet the challenges posed by an ageing population.

The report notes that the differences in the level of international competitiveness of euro area economies are partly caused by diverging trends in unit labour costs which reflect different developments in productivity and wage dynamics. They call on shareholders and corporate executives to maintain a responsible policy towards remuneration packages and bonuses at the top corporate levels, which tend to grow disproportionately compared to ordinary salary levels, and thus give the wrong signals and discourage support for a responsible wage policy.

The Parliament regrets that the performance of the eurozone in the field of innovation, as in the case of business expenditure on R&D, is lower than that of the USA and Japan. It therefore calls for a consistent policy which fosters innovation-based growth. Such a policy requires more investment in infrastructure, research, innovation, lifelong learning and education, more competition on product and services markets, more developed financial sectors and more flexible labour markets while ensuring the required level of social security (flexicurity) in accordance with the renewed Lisbon Strategy , as well as complementary policies aimed at correcting excessive inequalities caused by the reforms.

The Parliament calls for a consistent policy which fosters innovation-based growth. It recalls that such a policy requires more investment in infrastructure, research, innovation, lifelong learning and education, more competition on product and services markets, more developed financial sectors and more flexible labour markets while ensuring the required level of social security (flexicurity) in accordance with the renewed Lisbon Strategy, as well as complementary policies aimed at correcting excessive inequalities caused by the reforms.

Concerning the enlargement of the euro area, the report welcomes the entry of Slovenia to the euro area on 1 January 2007 and the smooth changeover from the Tolar to the euro. There is a need for agreement between Parliament, the Council and the Commission on a clear roadmap for the euro area application procedure in order to ensure a sufficient period of assessment and preparation for all institutions involved, which would increase the confidence of citizens and Member States in the changeover process. The report acknowledges that the definition of price stability used for assessing the convergence criteria is not identical to the price stability definition adopted by the ECB in its monetary policy, as the convergence criteria mainly assess measured past performance whilst the ECB's definition is an aim set for future performance. It regrets that the inflation criterion as set in the Treaty is measured against all Member States instead of concentrating on those which are now part of the eurozone. Parliament considers that the new Member States may face challenges in joining the eurozone especially with regard to the price stability criterion, since inflation may be part of the catching-up process.

As regards the issue of governance, MEPs consider it crucial to achieve a better coordination of budgetary policies among Member States over the cycle, notably based on a common calendar and macroeconomic assumptions. They believe in the interest of stronger economic coordination that the Eurogroup should move away from an informal to a more formal institutional framework, which includes proper infrastructures.

Emphasising that the euro has emerged as the second most important international currency behind the US dollar, the Parliament considers that a prerequisite for common external representation is the existence of a genuine common economic policy within the euro area. Parliament reasserts that the best option for representation of the euro area in the major international financial fora and institutions remains the creation of a single euro area chair.