P6_TA(2007)0348

Eurozone (2007)

European Parliament resolution of 12 July 2007 on the 2007 annual report on the eurozone (2007/2143(INI))

The European Parliament,

– having regard to the Commission Communication on the Annual Statement on the Euro Area 2007 (COM(2007)0231),

– having regard to the Commission's spring economic forecasts of 7 May 2007,

– having regard to its resolution of 26 April 2007 on Public Finances in the EMU 2006[1],

– having regard to its resolution of 15 February 2007 on the Situation of the European economy: preparatory report on the broad economic policy guidelines for 2007[2],

– having regard to its resolution of 15 February 2007 on the macro-economic impact of the increase in the price of energy[3],

– having regard to its resolution of 1 June 2006 on the enlargement of the euro zone[4],

– having regard to its resolution of 14 March 2006 on the strategic review of the International Monetary Fund[5],

– having regard to the 2006 Annual Report of the European Central Bank (ECB),

– having regard to the ECB's reports on Financial Integration in Europe of March 2007,

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A6-0264/2007),

A. whereas the GDP of the eurozone increased by 2,7 % in 2006, up from 1,4 % in 2005, which represents the best performance since 2000, whilst the inflation rate was 2,2 %, unchanged from 2005,

B. whereas the fiscal deficit declined to 1,6 % of GDP in 2006 from 2,5 % of GDP in 2005,

C. whereas the unemployment rate fell to 7,6 % by the end of 2006, its lowest level in 15 years,

D. whereas membership of the eurozone strengthens the degree of economic interdependence between Member States and calls for a closer coordination of economic

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1 Texts adopted, P6_TA(2007)0168.
2 Texts adopted, P6_TA(2007)0051.
3 Texts adopted, P6_TA(2007)0054.
4 OJ C 298 E, 8.12.2006, p. 249.
5 OJ C 291 E, 30.11.2006, p. 118.

policies in order to correct structural weaknesses, to face future challenges and to assimilate the eurozone with an increasingly globalised economy,

E. whereas the eurozone represents a core element of stability in the global economy,

Macroeconomic developments

1. 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; points out however that high unemployment levels and low participation in labour markets do not allow Europe to respond successfully to current and future challenges in a global economy;

2. Recalls in this connection that Article 111 of the Treaty confers responsibility for exchange rate policy on the Council, without specifying the means by which this power should be exercised; calls on the Euro Group, the Council and the ECB to exercise their respective powers to the full;

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

4. Welcomes the fact that eurozone members have made a concerted effort to correct excessive budget deficits in accordance with the reformed Stability and Growth Pact; highlights the fact that the Commission considers that in the eurozone as a whole the quality of the adjustment has increased, with less reliance on one-off measures and a decrease in public expenditure; stresses, in particular, that the combination of consolidation efforts, notably in countries with excessive deficits, and improved economic developments have reduced the budget deficit of the eurozone to 1,6 % of GDP in 2006, down from 2,5 % of GDP in 2005;

5. 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; warns against repeating the policy mistakes of 1999-2001; calls, therefore, for the current upswing to be used in two ways in order to achieve the following: the elimination of deficits and the accumulation of surpluses, which would reduce debt levels, and the improvement of 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; welcomes in this respect the fact that on 20 April 2007 the Eurogroup adopted orientations for fiscal policies in eurozone Member States, recalling the commitment to actively consolidate public finances in good times and to use unexpected extra revenues for deficit and debt reduction;

6. Stresses the risks posed by pro-cyclical policies in some Member States; takes note of the fiscal consolidation effort observed in the eurozone as a whole; insists, however, that the obligation to achieve the medium-term objective, as specified in the reformed Stability and Growth Pact, requires Member States to run surpluses during good times; believes that the consolidation effort needs to be strengthened in light of, inter alia, the demographic challenge to come; notes that the reformed Stability and Growth Pact

explicitly requires fiscal consolidation over the economic cycle; notes that procedural or numerical fiscal rules and independent fiscal institutions support fiscal consolidation and help avoid pro-cyclical policies;

7. Takes note of the ECB's decision in 2006 to further increase interest rates; observes that, although inflation remained contained despite a surge in energy prices, the growth rate of monetary aggregate M3 has systematically exceeded the reference value of 4,5 % by large margins ever since 2001 without accelerating inflation; calls on the ECB to explain better the reasons for this discrepancy and whether it is a symptom of growing liquidity with the potential to fuel inflation in future or a result of other factors, such as the deepening of financial markets, financial innovations and the increasingly international role of the euro;

8. Observes that asset price increases are gaining pace, notably in the real estate sector, which may be the normal symptom of a healthy economy but also raises the likelihood of violent adjustments; considers that these accelerating asset price increases reinforce the need for a cautious fiscal policy in Member States experiencing such developments, as well as national structural policies aimed at preventing such imbalances, including enhanced prudential regulation; invites national legislators and regulators to evaluate carefully the development of the real estate market; points to a differentiated approach which takes into account Member States' specific situations as regards growth and budget;

9. Observes that the nominal appreciation of the euro exchange rate by 11,4 % against the US dollar, 12,4 % against the yen, and 8 % against the Chinese renminbi led only to a minor appreciation of the real effective exchange rate of 3,5 % in 2006, and has not been detrimental to exports and growth at the eurozone level so far; observes, however, that the effects differ among Member States depending on their economic structures and the elasticity of their real sector response to changes in the exchange rate; calls on the Member States to take steps to increase their adjustment capabilities; 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

10. Considers 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; underlines however that the large current account deficit in some Member States is a symptom of diverging trends in competitiveness and that the different approaches to economic policy among Members States are key to explaining such differences;

11. Observes that differences in the level of international competitiveness of eurozone economies are partly caused by diverging trends in unit labour costs which reflect different developments in productivity and wage dynamics; notes that in recent years wage growth has remained below productivity growth levels; stresses the need for a fairer distribution of the benefits of growth; calls 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; notes that low inflation rates are also an important influencing factor as regards the favourable development of unit labour costs;

12. 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;

13. 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 eurozone in all areas relevant to monetary stability; urges the Member States of the eurozone, 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;

14. Recalls that ECB monetary policy can never be perfectly attuned to the situation of any particular Member State; observes that in fast-growing countries inflation is structurally higher and real interest rates are lower, even possibly negative; deems such situations inherent in a single monetary union and calls for sound fiscal policies in order to maintain stability, especially as regards the need for precaution against demographic risks;

15. 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; 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

16. Recalls that an integrated European financial market is essential to ensuring the smooth functioning of the EMU; emphasises, 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 eurozone's capability to deal with economic shocks; 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;

17. Considers that the pace of structural reforms in product, services, labour and financial markets should be accelerated and that the completion of the internal market is crucial to fostering economic growth and job creation;

18. Observes that services account for about 70 % of eurozone GDP and offer the greatest opportunity for employment growth; notes that services inflation makes a persistent contribution to core inflation; points out therefore that more competition in services would result in lower inflation; calls, therefore, for a fully operational internal market for services and a swift implementation of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market[1];

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[1] OJ L 376, 27.12.2006, p. 36.

19. Believes that the effective and full implementation of the Lisbon Strategy is key to achieving higher growth potential; 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; deplores also that total R&D spending of the public and private sector in the eurozone has been stagnating at around 2 % of GDP, which is well short of the objective of the Barcelona European Council of 15 and 16 March 2002, which was to reach 3 % of GDP by 2010; calls, therefore, for a consistent policy which fosters innovation-based growth; 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 eurozone

20. Welcomes the entry of Slovenia to the eurozone on 1 January 2007 and the smooth changeover from the tolar to the euro;

21. Encourages other new Member States to continue efforts to prepare themselves for entry into the eurozone; highlights the benefits stemming from the convergence process and the final adoption of the euro, both for the new Member States and for the eurozone as a whole; considers that issues relating to the eurozone should not be focused exclusively on the new Member States and points to the issue of opt outs;

22. Emphasises the need for an agreement between Parliament, the Council and the Commission on a clear roadmap for the eurozone 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;

23. 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; 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;

24. Calls for more effective action to tackle money laundering and fraud and notes 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;

25. 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; therefore calls 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 eurozone and in the light of the new reality and differences in economic development; emphasises that the convergence criteria must be applied according to the Treaty and in any case the competitiveness of the eurozone should not be questioned;

26. Recalls the need to engage in extensive citizen information campaigns in applicant

Member States at an early stage, generating confidence in the changeover process, and to ensure that the changeover phase is managed in a fair manner by all involved, with a view to making the euro a success; judges that the information deficit of citizens needs to be reduced and that the use of the media for information campaigns needs to be organised at an early stage;

Governance

27. Considers that it is crucial to achieve a better coordination of budgetary policies among Member States over the cycle, notably based on a common calendar and macroeconomic assumptions; calls for the strict and effective implementation of the Stability and Growth Pact;

28. Considers that the specific eurozone 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; welcomes as a first step in this direction the focus on the eurozone in the Commission’s annual progress report on the state of implementation of the Lisbon Strategy;

29. Stresses the need to strengthen governance and the process of European integration, in particular within the eurozone, as this is the only way to tackle global economic challenges; calls, therefore, on the Council and the Commission to ensure, in the future, that the annual report on the eurozone 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;

30. Recalls the need to increase the effectiveness of the Lisbon Strategy by consolidating the content and timing of economic policy instruments that are still deployed separately, the goal being an intelligent growth strategy that further concentrates the reporting and assessment work in the area of the national reform programmes, but at the same time also involves the national stability and convergence programmes;

31. Believes that the Eurogroup should agree on a roadmap on what should be achieved in the next two years in the eurozone; believes 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;

External representation

32. Emphasises that the euro has emerged as the second most important international currency behind the US dollar; in particular, considers that the wide use of the euro in international bond markets is a key feature of the euro's international role; regrets that the Eurogroup, the Commission and the ECB continue to be represented to very different extents in the various international institutions and fora; observes with interest that the Eurogroup and the ECOFIN Council have considered proposals to strengthen the external representation of the eurozone and to improve internal coordination in the external scene; considers that further steps are needed before the external representation of the eurozone is commensurate with its growing importance in the global economy; considers that a prerequisite for common external representation is the existence of a genuine common economic policy within the eurozone; reasserts that the best option for representation of the eurozone in the major international financial fora and institutions remains the creation

of a single eurozone chair;

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33 Instructs its President to forward this resolution to the President of the Eurogroup, the Council, the Commission and the European Central Bank.