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2006 Annual Report on the Euro Area

European Parliament resolution on 2006 annual report on the euro area (2006/2239(INI))

The European Parliament,

– having regard to the Commission communication entitled 'Annual Statement on the Euro Area' (COM(2006)0392),

– having regard to the Commission's interim forecast of September 2006,

– having regard to its resolution of 3 July 2003 on the international role of the euro zone and the first assessment of the introduction of banknotes and coins[1],

– having regard to its resolution of 4 April 2006 on the situation of the European economy: preparatory report on the broad economic policy guidelines for 2006[2],

– having regard to its resolution of 14 March 2006 on the strategic review of the International Monetary Fund[3],

– having regard to its resolution of 17 May 2006 on public finances in the economic and monetary union (EMU)[4],

– having regard to its resolution of 1 June 2006 on the enlargement of the euro zone[5],

– having regard to its resolution of 26 October 2006 on the 2005 Annual Report of the European Central Bank[6],

– having regard to the reports of the European Central Bank (ECB) on the international role of the euro and on financial integration in the euro zone,

– having regard to its resolution of 13 December 2005 on taxation of undertakings in the European Union: a common consolidated corporate tax base[7],

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

– having regard to the report of the Committee on Economic and Monetary Affairs (A6-0381/2006),

A. whereas membership of the euro area strengthens the degree of economic interdependence between Member States and calls for a closer coordination of economic

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1 OJ C 74 E, 24.3.2004, p. 871.
2 *Texts Adopted*, P6_TA(2006)0124.
3 *Texts Adopted*, P6_TA(2006)0076.
4 *Texts Adopted*, P6_TA(2006)0214.
5 *Texts Adopted*, P6_TA(2006)0240.
6 *Texts Adopted*, P6_TA(2006)0464.
7 *Texts Adopted*, P6_TA(2005)0511.

policies with the aim of correcting structural weaknesses to face incoming challenges and to achieve more prosperity and competitiveness in order to be prepared for a greater globalised economy,

B. whereas economic growth in the euro area is accelerating in 2006 and appears more broad-based with domestic demand, notably investment, gaining momentum; but whereas growth may slow down in 2007, due to high oil prices, the delayed effects of the strengthening of the euro, and a decrease in US growth,

C. whereas the potential growth of the euro area is usually assessed to be around 2% and needs to be increased and sustained at 3% in order to provide jobs for more than twelve million unemployed Europeans, to increase their disposable income, and to allocate the resources needed to modernise Europe's unique welfare states,

D. whereas for the inflation rate criterion, two different definitions of 'price stability' are being used; whereas the ECB has clarified that, in the pursuit of price stability, it aims to maintain inflation rates below but close to 2% over the medium term while in their convergence reports, the ECB and the Commission use a reference value calculated as the average inflation rate over the previous 12 months in the three best-performing Member States plus 1,5 percentage points, on the basis of the Protocol on the convergence criteria referred to in Article 121(1) of the EC Treaty, which assumes that best performance in terms of price stability means, in practice, the lowest possible inflation,

E. whereas from 1 January 2007, the euro area will comprise only 13 Member States but macro-economic policy coordination and the internal market will involve all 27 Member States,

F. whereas the external representation of the euro area in international institutions and fora is not commensurate with its economic weight in the global economy; whereas limited progress has been achieved since the inception of the euro to ensure that the euro area speaks with one voice in international financial institutions and fora; and whereas these shortcomings make it difficult for the euro area to promote its interests and to show leadership in meeting global economic challenges,

G. whereas the ECB shares with the Council responsibility for issues relating to the exchange rate and the international representation of the euro area,

H. whereas the Eurogroup has a remit to engage in informal dialogue with the ECB and its main tasks are formulating common views on the general functioning of the euro area's economy and monitoring trends in exchange rates between the euro and other currencies,

Macroeconomic policy

1. Welcomes the presentation by the Commission of its first annual report on the euro area, which reflects the evolution of the euro area economies in 2006 and is a useful contribution to the debate on the shared economic policy challenges facing euro-area members;

2. Considers that clear and transparent rules on how the two main pillars - money supply on the one hand, and all other relevant information on future inflation developments on the other - affect the operational decisions of monetary policy could make it more predictable

and effective; considers also that minutes of the meetings of the Governing Council of the ECB should be published, containing a clear statement of the arguments for and against the decisions taken and the reasons why they were taken; considers such transparency to be important because in this way the market will be able to gain a clearer picture of the ECB's monetary policy;

3. Taking into account that the monetary stimulus given in recent years is gradually being withdrawn; calls on the Commission to adhere to a strict interpretation of the renewed Stability and Growth Pact and on Member States to pursue an annual improvement in their cyclically adjusted budget deficits of 0,5% of GDP as a benchmark, which will help to dampen inflationary pressures and keep interest rates down at levels that do not endanger the current economic recovery; recalls in this context the added value of better fiscal, especially budgetary, coordination among Member States towards a more coherent macro-economic policy balance, as compared to the well-developed monetary policy of the EMU;

4. Considers that, without questioning the principle of subsidiarity in fiscal policy and respecting the prerogatives of national governments in determining their structural and budgetary policies, it is important that all Member States, at least those belonging to the euro area, coordinate their different national fiscal calendars and base their budgetary projections on similar criteria in order to avoid disparities caused by the use of different macro-economic forecasts (global growth, EU growth, price per barrel of oil, interest rates) and other parameters; believes that the Commission can provide an important contribution to achieve this mission;

5. Calls on Member States to allocate a substantial share of additional fiscal revenues obtained from the current economic growth to reduce public debt which will free resources to be invested in education, vocational training, infrastructure, and research and innovation in line with the objectives set by the Lisbon-Göteborg Strategy and to face the challenges presented by an ageing population and climate change;

6. Reminds the Commission that in its above-mentioned resolution of 4 April 2006, the Parliament asked for a general review of the Member States' fiscal systems, which is a key method to strengthen the competitiveness of the economy and the sustainability of public finances;

7. Invites the Commission to prepare a study on the benefits for the euro area and for the Union as a whole of a better functioning of the economic pillar of the EMU applied to the euro area in terms of growth and employment;

Economic reforms

8. Recalls in this context the importance of the active and urgent implementation of the Lisbon Strategy equally at all levels and in all policy fields concerned by a multi-supportive policy mix of economic, employment, environment and social policy reforms;

9. Realises that the euro area economy adjusted to world growth recovery only very sluggishly, mainly due to the weakness in domestic demand and that economic reforms in product, labour and capital markets will help prices and wages to respond more rapidly to changing economic circumstances, this being essential for raising the potential for growth, dealing with unwarranted disparities in growth and inflation among Member

States in the euro area, and adjusting to potentially adverse global developments;

10. Takes into account that some Member States have shown commitment in their national reform programmes (NRPs), but realises that this is not sufficient and urges the Member States to undertake action; recalls that economic performance would be furthered by the approval of a code of conduct allowing for mutual monitoring by Member States of NRPs, through the exchange of best practices and the publication by the Commission of an annual "league table" showing the best and worst-performing countries, as proposed in the report of November 2004 by the Commission's High Level Group chaired by Wim Kok entitled 'Facing the Challenge - The Lisbon strategy for growth and employment';

11. Considers that the euro-area Member States should continue to progress simultaneously as regards the three principles of the Lisbon-Göteborg model (economic growth, social cohesion and environmental protection) and also emphasises the potential of 'flexicurity' (flexibility and security) for increasing labour market participation, in particular that of women, older workers, young people, the long-term unemployed, and immigrants;

12. Recalls its conviction that the objective of introducing a common consolidated corporate tax base in Europe could also be achieved through the mechanism of enhanced cooperation if Member States were unable to reach unanimous agreement; underlines that the mechanism of enhanced cooperation - though less desirable than a unanimous agreement of the Member States - would allow the great majority of Member States to progress in the field of a common framework for company taxation in the internal market while allowing the non-participating Member States the possibility to join at a later stage; believes that this issue is ever more relevant for the euro area and urges the Member States of the euro area to step up their efforts in order to make progress in this field;

Internal market

13. Considers that the completion of the internal market, especially in services, is crucial to fostering economic growth and job creation within the EMU; therefore calls for further and better implementation of directives; condemns the policies adopted by some Member States to protect their key industries and services from cross-border competition and renews its commitment to the principles of free movement of persons, goods, services and capital;

14. Agrees with the Commission on the necessity of removing barriers for the creation of a Single European Payment Area and of taking further action to open up the fragmented retail financial services markets (savings plans, mortgages, insurance and pensions) while ensuring the protection of consumers; underlines the importance of developing a pan-European approach to financial market regulation and supervision and recalls that it is necessary to review the rules on insurance solvency (Solvency II) as well of those concerning the discretionary powers of regulators in the case of cross-border mergers to avoid conflicts between the supervisors in the home and host Member States;

15. Believes that an ambitious EU innovation policy is one of the main cornerstones of sustainable development and job creation and should be included as a top priority in the framework of an improved economic coordination approach; regrets that research and development expenditures in the euro area stand at around 2% of GDP, and thus fall significantly short of the EU-wide objective of 3%; calls on the Commission to table concrete proposals regarding the financing of R&D within the EU and an efficient

framework of intellectual property rights; calls on Member States to allocate more resources to research and innovation and to establish tax incentives for businesses and universities investing in R&D, knowing that, compared with direct subsidies, such incentives are a better guarantee that public resources will be used to support successful ventures;

16. Considers that labour markets should be made more flexible and those aspects of the legislation on permanent employment that may act as a barrier to labour market adjustment should be removed; admits that in the long term, real wages and productivity should grow simultaneously; regrets that many of the proposals made by the Parliament have not been taken into account, especially those referring to the improvement of child-care facilities, the achievement of a better work-life balance, the setting up of incentives to encourage workers to delay voluntary retirement, and the establishment of policies aimed at integrating legal immigrants into the labour market and combating illegal immigration;

17. Regrets that the current levels of education and lifelong learning, which should be included as top priorities in the framework of an improved economic coordination approach, are clearly insufficient and agrees with most of the measures proposed by the Commission; regrets, however, that some of the proposals approved by the Parliament have not been taken on board especially those with the objective of improving the knowledge of foreign languages, mathematics and sciences in primary and secondary education, to achieve an integrated model of professional training, to attract more students to scientific careers, to strengthen cooperation between universities and the industrial and commercial sectors, to encourage educational provision that takes into account labour market demand, to guarantee access to tertiary education for all, to promote lifelong learning and address long-term and youth unemployment accordingly, and to ensure the better communication, dissemination and application of the outcomes of research;

18. Calls on the Member States and the Commission to include within their top priorities the achievement of an internal market for energy, improved R&D policy on alternative energy sources and more environmentally friendly and cleaner energy, including a push towards the increased use of renewable energies, an increased commitment to energy savings and efficiency, as well as the reinforcement of political and economic links with as many supplier countries as possible in order to diversify energy sources and deal better with shortages of supply;

A functioning EMU

19. Agrees with the Commission that the disparities in growth and inflation rates within the euro area, with differences of up to 4,5 % in growth and up to 2,7 % in inflation in 2005, is increasingly due to structural reasons; regrets that dispersion in inflation rates among Member States with higher inflation rates has a negative effect on the competitiveness and monetary stability of the euro area as a whole; notes that these differences are sometimes part of a positive process of convergence in revenues and price level, due to the "catch up" process; calls once more on Member States of the euro area to strengthen their efforts towards effective coordination of economic and monetary policies notably through the reinforcement of their common strategies within the Eurogroup, in order to improve the real convergence of economies and to limit the risks of asymmetric shock in the EMU;

20. Welcomes Slovenia to the euro area on 1st January 2007; calls on new Member States to undertake the necessary actions to fulfil the Maastricht convergence criteria and draws attention to the fact that the ECB and the Commission must apply the price stability criterium as set out in the EC Treaty, which differs from that applied by the ECB when conducting its monetary policy, and suggests that the ECB and the Commission evaluate whether it is justified to retain such a difference in approach;

21. Recognises that according to the Maastricht convergence criteria, the rate of inflation must not exceed by more than 1,5 % that of the three best-performing Member States in terms of price stability; points out that both the definition of the three best-performing Member States in terms of price stability as well as the method of calculating the reference value need to be carefully examined to reflect the fact that there are now twelve Member States participating in the EMU, using a single currency, which is managed by a common monetary policy, and that the differentials in their individual inflation performance reflect structural factors rather than differences in macroeconomic policy stances;

22. Calls on the Commission and Eurostat to increase the quality of statistical macro data (especially budgetary deficit and state debt) and to use all their tools to avoid fiscal imbalances in any of the Member States; calls for a further increase of the Commission's powers to verify the quality of the transmitted data;

23. Invites the Commission to pay closer attention to the impact of the behaviour of the financial markets on the macroeconomic situation of the euro area;

24. Urges the competent supervisors to step up their efforts in order to assess the activities of hedge funds more efficiently with regard to the systemic risks which they may create and invites the Eurogroup to examine this issue;

External representation

25. Welcomes the agreement reached within the Council to speak with one voice at the annual meeting of the Bretton Woods institutions in Singapore of 19 to 20 September 2006; insist that the positions of the Member States' representations within the IMF must be better coordinated; calls on the Member States once again to work towards a single voting constituency, possibly starting as a euro constituency, with a view, in the longer term, to securing consistent EU representation, involving the ECOFIN Council Presidency and the Commission, subject to Parliament's scrutiny;

Coordination

26. Welcomes the re-election of Jean-Claude Juncker as chair of the Eurogroup; believes the Eurogroup should agree on a roadmap on the objectives of the euro area for the next two years;

27. Points out that the Treaty does not clarify how the Council must exercise its responsibility for exchange rate policy; invites the Eurogroup, the Council and the ECB to step up the coordination of their action in the area of exchange rate policy;

28. Highlights the necessity of underpinning cooperation in the euro area in order to strengthen economic governance and the process of European integration so that global

economic challenges can be tackled; calls on the Commission, therefore, to ensure that the annual report on the euro area provides, in the future, a more concrete set of tools, which would enable a deeper dialogue between the different EU institutions concerned with improving economic governance of the Union; invites the Commission to provide strong support for the activities of the Eurogroup and its president;

29. Considers that it would be beneficial to all parties involved, if a more regular and structured dialogue on macroeconomic issues between the Eurogroup,-the Commission and Parliament, similar to the monetary dialogue between Parliament and the ECB, were established to take place at least quarterly, in order to deepen the existing frameworks and debate challenges facing the euro area economy and ways to tackle them;

30. Believes that the regular meetings of the Parliament and national parliaments could clearly play a significant role in helping develop a better ownership by national parliaments of the required economic policy coordination;

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