EUROPEAN PARLIAMENT

1999 *2004*

Session document

FINAL
A5-0135/2000

15 May 2000

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REPORT

on the proposal for a Council decision for the adoption by Greece of the single currency on 1 January 2001 (Article 122(2))
(8350/2000 - COM(2000) 274 – C5-0226/2000 – 2000/0110(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Robert Goebbels

Symbols for procedures

*	Consultation procedure *majority of the votes cast*
**I	Cooperation procedure (first reading) *majority of the votes cast*
**II	Cooperation procedure (second reading) *majority of the votes cast, to approve the common position* *majority of Parliament's component Members, to reject or amend the common position*
***	Assent procedure *majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty*
***I	Codecision procedure (first reading) *majority of the votes cast*
***II	Codecision procedure (second reading) *majority of the votes cast, to approve the common position* *majority of Parliament's component Members, to reject or amend the common position*
***III	Codecision procedure (third reading) *majority of the votes cast, to approve the joint text*

(The type of procedure depends on the legal basis proposed by the Commission)

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PROCEDURAL PAGE

By letter of 16 May 2000 the Council consulted Parliament, pursuant to Article 122(2) of the EC Treaty, on the proposal for a Council decision for the adoption by Greece of the single currency on 1 January 2001 (8350/2000 - COM(2000) 274 - 2000/0110 (CNS)).

At the sitting of 16 May 2000 the President of Parliament will announce that she has referred this proposal to the Committee on Economic and Monetary Affairs as the committee responsible (C5-0226/2000).

The Committee on Economic and Monetary Affairs appointed Robert Goebbels rapporteur at its meeting of 26 January 2000.

The committee considered the Commission proposal and draft report at its meetings of 3 May, 8 May and 15 May 2000.

At the last meeting it adopted the draft legislative resolution by 26 votes to 1, with 10 abstentions.

The following were present for the vote: Christa Randzio-Plath, chairman; William Abitbol and Ioannis Theonas, vice-chairmen; Robert Goebbels, rapporteur; Alejandro Agag Longo, Luis Berenguer Fuster, Pervenche Berès, Georges Berthu (for Liam Hyland), Hans Blokland, Armonia Bordes, Hans Udo Bullmann, Giorgos Dimitrakopoulos (for José Manuel García-Margallo y Marfil pursuant to Rule 153(2)), Harald Ettl (for Fernando Pérez Royo), Jonathan Evans, Göran Färm (for Richard A. Balfe), Carles-Alfred Gasòliba i Böhm, Norbert Glante (for Simon Francis Murphy), Christopher Huhne, Pierre Jonckheer, Othmar Karas, Giorgos Katiforis, Gorka Knörr Borràs, Werner Langen (for Christoph Werner Konrad), Alain Lipietz, Peter Michael Mombaur (for Amalia Sartori), Mihail Papayannakis (for Fausto Bertinotti), John Purvis (for Theresa Villiers), Alexander Radwan, Bernhard Rapkay, Karin Riis-Jørgensen, Olle Schmidt, Peter William Skinner, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Antonios Trakatellis (for José Javier Pomés Ruiz pursuant to Rule 153(2)), Ieke van den Burg (for Bruno Trentin) and Karl von Wogau.

The report was tabled on 15 May 2000.

LEGISLATIVE PROPOSAL

Proposal for a Council decision on the adoption by Greece of the single currency on 1.1.2001 (Art. 122(2)) (8350/2000 - COM(2000) 274 – C5-0226/2000 – 2000/0110(CNS))

The proposal is approved.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council decision on the adoption by Greece of the single currency on 1.1.2001 (8350/2000 - COM(2000) 274 – C5-0226/2000 – 2000/0110(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission convergence report 2000 (COM(2000) 277),

- having regard to the European Central Bank convergence report 2000,

– having regard to the Commission proposal to the Council (COM(2000) 274[1]),

– having been consulted by the Council pursuant to Article 122(2) of the EC Treaty (C5-0226/2000),

– having regard to Rule 85 of its Rules of Procedure,

– having regard to the proposal submitted orally by the Committee on Economic and Monetary Affairs (A5-0135/2000),

1. Approves the Commission proposal;

2. Asks to be consulted again should the Council intend to amend the Commission proposal;

3. Instructs its President to forward its position to the Council and Commission.

[1] Not yet published in OJ.

EXPLANATORY STATEMENT

Economic and Monetary Union: a common objective

The Maastricht Treaty, which has been in force since 1 November 1993, and the Amsterdam Treaty, which came into force on 1 May 1999, are two of the stages in 'the process of creating an ever closer Union among the peoples of Europe' (Article 1 of the consolidated Treaty on European Union).

The prime objective of the European Union, as set out in Article 2, is to promote 'economic and social progress and a high level of employment' and to achieve 'balanced and sustainable development', in particular through 'the creation of an area without internal frontiers', 'the strengthening of economic and social cohesion' and 'the establishment of economic and monetary union, ultimately including a single currency'.

This major European ambition of establishing 'a single and stable currency' (seventh recital of the preamble to the Treaty on European Union) began to become a reality at the Brussels Summit of 2 and 3 May 1998, when a decision was taken concerning the initial group of Member States who would take part in economic and monetary union (the euro-11). This was followed by the establishment of the European Central Bank on 1 June 1998 and the transition to the third stage of EMU on 1 January 1999, the date on which the single currency (the euro) officially came into existence.

The 'opt-out' countries

Although, in principle, all the current (and future) EU Member States are supposed to take part in EMU and adopt the single currency, the Protocol on certain provisions relating to the United Kingdom states that 'unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so'. This right to 'opt out' which has been granted to the United Kingdom does not apply in the case of the other Member States which are not yet part of the euro area, even though the Protocol on certain provisions relating to Denmark grants that country an 'exemption' from participating in the third stage of EMU until such time as the Danish people have expressed their view, by means of a referendum, on their country's involvement in EMU.

In the case of the other EU Member States which are not yet participants in the euro system and which, since 3 May 1998, have enjoyed an exemption pursuant to Article 122(1) (namely, Sweden and Greece), all the provisions relating to the achievement of economic and monetary union apply in full, in particular Articles 121 and 122.

Pursuant to Article 122(2) the Commission and the European Central Bank have recently (on 3 May 2000) issued reports on the state of convergence of the two 'exempted' Member States, Sweden and Greece.

Although those two reports are concerned with the progress made in terms of economic convergence by both Sweden and Greece, *this* report is concerned solely with the situation of Greece (a country wishing to adopt the euro), since Sweden (whose state of convergence is frankly excellent) has made its application subject to consultation of the Swedish people.

Personal opinion

The rapporteur welcomes the intention of both the Danish Government and the Swedish Government to consult their respective peoples, by means of a referendum, regarding those countries' full accession to EMU and, therefore, to the common currency.

He ventures to hope that these two democratic consultations will produce a favourable result, just as he hopes that the people of the United Kingdom of Great Britain and Northern Ireland will opt, in the not-too-distant future, for the common currency.

He believes that the ambition shared by the 15 Member States to create an ever-closer union involving, in particular, the creation of an 'area without internal frontiers' cannot be fully achieved unless there is a common currency. In particular a country such as the United Kingdom, which is the home of one of the world's most important financial markets, cannot expect to enjoy all the advantages of an increasingly integrated European financial market without being a full member thereof and, in particular, without accepting all the responsibilities and constraints associated with economic and monetary union.

Greece's application

On 9 March 2000 the Greek Government, pursuant to its right as laid down in Article 122(2), asked the Commission and the ECB to report to the Council, pursuant to Article 122(1), on Greece's compliance with the requirements for full accession to EMU.

Incidentally, Greece's application for membership of the euro system could have been lodged the day after 7 March 2000 (the date on which Greece's February 2000 inflation rate was published - i.e. on 8 March 2000) but the Greek Government did not wish to 'steal the show' from International Women's Day, which also fell on 8 March 2000.

To be able to join the euro area, Greece must have achieved a 'high degree of sustainable convergence'.

A consistent effort

The economic progress made by Greece over the last few years is quite remarkable. For a country which, at the beginning of the 1990s, was generally regarded as the economic 'sick man' of the European Union, an impressive amount of ground has been covered. For example, the inflation rate has fallen from 20.4% in 1990 to 2.6% in 1999, and dropped to 2% in March 2000.

The second (February 2000) edition of the Banque Paribas magazine *Conjoncture* commented that 'the Greek Government may pride itself on having made considerable economic progress within a short period of time, in particular since 1996': Greece's public deficit fell from 7.6% of GDP in 1996 to 1.5% in 1999 and the forecast for 2000 is 1.3%. Even though the restabilisation process is currently proceeding at a slower pace, the primary balance expected for the current year could exceed 6.5%, which is an essential factor in the constant reduction of Greece's public debt.
That debt does, of course, exceed the 60%-of-GDP limit recommended in the Treaty on EMU. However, after a reaching a peak of 112.2% of GDP in 1996, the ratio should decline steadily,

in particular following the reduction in nominal interest rates, which should normally accompany Greece's entry into EMU.

In this connection it may be of interest to note that the major international rating agencies now regard Greece as a developed market and they have improved their ratings of Greece's debt: A2 in the case of Moody's and BBB in the case of Standard and Poors. It may also be noted that the Greek stock market has grown rapidly: as a percentage of GDP, stock market capitalisation went up from 36% in 1998 to 74% in 1999, which even prompted the authorities to issue a call for restraint in order to prevent a speculative bubble. In any event, since 1998 Greece has become a major net receiver of foreign capital.

In its opinion of 8 November 1999 the International Monetary Fund took the view that 'Greece has entered the virtuous circle which is essential if its efforts to participate in the euro are to succeed'.

The OECD's opinion

The OECD report of 30 October 1998 had already observed that 'the Greek economy is making rapid progress towards the objective of EMU participation in 2001' but that 'there are still considerable challenges'. However, the report concluded that 'thanks to the sustained effort which has been made over a number of years, this objective is within Greece's reach'.

On that occasion the OECD strongly emphasised the need for reform in the public-company sector, which included approximately 50 companies employing 130 000 people. In the OECD's view, such over-manning 'is essentially linked to the fact that, until the 1990s, such companies, which are victims of the political cycle, were used as last-resort providers of employment'.

The 'invariably mediocre' (OECD) financial results of those companies required constant financial aid from central government, equivalent to almost half of the public debt. The gross funding requirements of the 50 companies concerned amounted at the time to 4% of annual GDP, whilst transfers from the State budget amounted to 2% of GDP.

Each successive Greek government (even if it had no ambition to adopt the single currency) has been forced to speed up the public-sector restructuring process.

This has occurred since 1996 in particular. Approximately 40 public companies have been converted into limited companies equipped with a modern business plan, whilst new managers have been recruited by means of open competitions. The companies have not, however, been fully privatised since private shareholding is restricted by law to 49%.

It is apparent that the process of restructuring the public sector is not yet at an end and that difficult decisions have still to be taken. However, the restructuring of public companies and the liberalisation of the various economic sectors do not necessarily amount to full privatisation.

As regards convergence, all EU governments are required to produce a result but they are free to choose the means of achieving it.

The stages of Greek convergence

The Commission's 1998 report on the state of convergence concluded that Greece did not meet any of the Maastricht convergence criteria, for which reason Greece was not selected at the Brussels Summit of 2 and 3 May 1998 as one of the first Member States to adopt the euro.

An initial convergence programme was submitted by Greece in 1998. As a result of the efforts which the country subsequently made the Council was able, on 29 November 1999, to rescind its decision of 26 September 1994 concerning the existence of an excessive deficit in Greece.

The updated Greek convergence programme, which covers the period from 1999 to 2002, was published in December 1999 and was unanimously approved by the Ecofin Council on 31 January 2000.

The Ecofin Council also welcomed the revaluation of the drachma, which occurred on 17 January 2000. This 3.5% revaluation of the drachma's central rate within the new European Monetary System makes a significant contribution towards weakening inflationary pressures.

As Deutsche Bank Research Bulletin No 147/2000 comments: 'The realignment (of the drachma) is interpreted by the financial markets as a signal that Greece will achieve accession to EMU by the year 2001'.

The publication, on 3 May 2000, of the Commission's convergence report 2000, together with the proposal for a Council decision, pursuant to Article 122(2) of the Treaty, concerning the adoption by Greece of the single currency on 1 January 2001, and also the convergence report 2000 which was presented on the same date by the European Central Bank, signal the logical outcome of the efforts made by Greece to become the twelfth member of the euro area.

Consultation of Parliament

Pursuant to Article 122(2) of the Treaty, this is a report in connection with which Parliament is required to be consulted.

In your rapporteur's view it is not for Parliament to recheck the economic and statistical data provided both by the Commission and by the ECB. Indeed, Parliament has, unfortunately, no means of so doing.

Nor does your rapporteur intend to regurgitate the comments and remarks made in the Commission and ECB reports.

Parliament is being consulted in connection with a political decision to be taken by the Ecofin Council following discussion of the matter at the next European Council.

Once it has been consulted, Parliament's reply cannot therefore be other than a political one -

i.e. it can say 'yes' or 'no', which is always the final arbitration in political democracy.

Greece's accession to the Euro area does not in fact involve any political risk. Like any Member State, Greece has the right (if not to say the obligation) to join EMU.

There are, however, economic risks attached and these are greater in the case of Greece than in the case of countries belonging to the euro area.

In joining the euro area, Greece will be required to continue the stability culture which it has developed since 1996, to accept the Dublin Growth and Stability Pact and to adhere to continue to conduct a responsible economic policy. However, that policy has already led the country into a virtuous circle resulting in sustainable but non-inflationary growth. Stability is no longer an end in itself but must provide a basis for healthy growth.

Like other institutions, Parliament (or at least, its Committee on Economic and Monetary Affairs) must make the following points:

- Greece must continue its efforts in order to ensure that the progress it has made in terms of deflation can be made sustainable; such an effort is all the more necessary in view of the fact that the monetary conditions in the country are approaching those prevailing in the euro area, and in view of the impact which such a trend may have on demand and on prices;

- the Greek Government must further direct its economic-policy instruments towards combating inflation, with particular reference to the budget and to incomes policy;

- cooperation amongst all sides of industry (particularly during the coming wage negotiations) seems essential if the conditions for non-inflationary growth are to continue;

- even though Greece has recently made considerable progress as regards the implementation of structural reforms (i.e. in the functioning of the public sector in the broadest sense of the term), the country's government must speed up the reforms which still need to be carried out, in particular the incorporation of European legislation into national law, so as to improve the functioning of, and the conditions for competition in, the employment market and the goods and capital markets with a view to increasing the country's degree of integration within the internal market.

The Commission is proposing that the Council should take an affirmative decision enabling Greece to join the euro area on 1 January 2001.

The Maastricht Treaty was careful not to make a country's membership of EMU conditional upon its meeting the convergence criteria in full. Hence, for example, a public deficit is not 'excessive' if it is 'exceptional and temporary' and if it is in the region of 3%. Total debt is not 'excessive' if it is 'approaching the reference value at a satisfactory rate.'

As a consequence, Belgium and Italy, although they had higher debt levels than Greece, were nonetheless deemed suitable to join EMU.

Conclusions

This necessary flexibility in the assessment of economic performance (which, in the case of Greece, is a genuine achievement) means that political decisions cannot be reduced merely to arithmetical or statistical exercises; rather, they are based on the vision and the political ambition referred to in the introduction to this report.

In view of the above, your rapporteur calls on the Committee on Economic and Monetary Affairs to recommend Parliament to vote in favour of the attached legislative resolution - a political vote calling for Greek membership of the euro area.