BUSINESSEUROPE

SPEECH

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ADVANTAGES AND BENEFITS OF THE EURO
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SPEAKING NOTES

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1. Achievements over the past 10 years …

For European business, the euro is an enormous success story and we are proud of our common currency. Ten years on, the euro is today the world's second most important currency and continues to gain ground on a faltering US dollar.

Some figures
- ➢ the euro-denominated debt market overtook the US-dollar-denominated market in 2003
- ➢ official central bank reserves continue to increase; they barely exceeded 18% in 2000 and already attained almost 26% in 2007
- ➢ 50% of imports from non-euro-area countries are billed in euros; the share attained 60% for exports to the rest of the world

This global currency status is a strong asset for European companies in both trade relations and in their access to the global savings and capital pool.

But there are also immense advantages domestically. Today, companies operating in the euro area – a market of around 350 million citizens – benefit from:
- ➢ More economic stability:
  - o end of intra-euro-area exchange rate fluctuations
  - o low inflation and low interest rates (short and long)
- ➢ Reduced transaction costs when operating across borders
- ➢ More market integration and more open competition
- ➢ Deeper financial markets providing better access to finance

There are also sizeable gains for consumers:
  - o broadening of consumer market, more transparency and more choices
  - o fall in financial transaction costs (e.g. SEPA)
  - o increased competition on product markets helping to tame price pressures.

A sign of the success of monetary union is the fact that more than 18 million jobs have been created in the euro area since 1999, which is a remarkable performance by historical standards.
In terms of economic governance, the most important success is the ECB's excellent handling of the task assigned to it in the treaties.

The ECB has been credible in its commitment to deliver price stability, which has allowed favourable financing conditions to be maintained in all euro-area countries, and has reacted well and promptly to the ongoing credit market turmoil. Fifteen national central banks would not have been able to do that as effectively.

Overall, BUSINESSEUROPE strongly supports the independence and mandate of the ECB, which we consider to be crucial pillars for the good governance of monetary union.

2. … but more needs to be done in the future

Despite the indisputable successes, worrying tendencies have also been noticed over the past ten years. The need for more coherent governance and better policy coordination is evident.

- intra-euro-area disequilibria are important
  - diverging evolution of competitiveness levels: countries like Italy, Spain or France have lost between 15 and 5% of their competitiveness vis-à-vis Germany or Austria since the start of EMU
  - dispersion of current account deficits: three out of five OECD countries with the largest current account deficits in % of GDP are euro-area member states (Spain, Portugal and Greece), whereas Germany, the Netherlands or Finland enjoy very large surpluses.

- the above-mentioned problems are symptoms of
  - structural rigidities and insufficient market integration leading to a lack of competition and productivity gains, in particular in the services sector
  - an inadequate policy mix at the national level as fiscal consolidation / reforms tend to be implemented at the last minute and in bad economic times. This tends to reinforce economic divergence across countries and reduce the appropriateness of the monetary policy stance at the individual country level
  - reforms do not exploit significant cross-border synergies and the lack of policy coordination leads to "beggar thy neighbour" approaches.

- despite the 2005 reform, the dissuasive arm of the SGP remains relatively weak and enforcement of budget discipline is impossible, especially vis-à-vis larger member states.

- role of Eurogroup president could be reinforced in order to increase his ability to address international challenges (exchange rates, global imbalances) with euro-area partners in a more vigorous manner

3. Social partner involvement

Policy- makers are aware of these problems and work towards better governance. The reform of the SGP and the renewed Lisbon strategy have recognised the challenges, but it is now time for actual implementation.

Involving social partners in the elaboration of reform objectives and in the monitoring of reform progress is essential to move forward. Indeed, significant structural reforms, e.g. in the labour market, are unthinkable without the consent of social partners. In this respect, the common analysis of the labour market by European Social Partners and the subsequent agreement on common principles regarding flexicurity are important steps into the right direction.

Improving the governance of monetary also implies responsible Social Partners when it comes to wage-setting policies.

Obviously, with the loss of two national policy instruments (monetary and exchange rate policies), the pressure on flexible wage settings has increased considerably among member states sharing the euro.

Unfortunately, while a drawn-out process of wage moderation has been key in supporting a strong labour market performance over the last decade, it is hard to claim that wage flexibility has moved in the right direction.

In this regard, BUSINESSEUROPE has consistently called for wages:

- to be in line with productivity developments, not only at the macroeconomic level but also across sectors and the company level.
- to be discussed on the basis of the ECB's definition of price stability (inflation close but below 2%), avoiding compensation for past inflation overruns which always hurt employment
- to contribute to resolving macroeconomic imbalances where they occur, such as high unemployment or deteriorating external competitiveness.

In order to bridge the gap between relatively decentralised bargaining structures and the need for Social Partners to consider the macroeconomic dimension of their decisions, the EU has put in place the so-called Macroeconomic Dialogue (Cologne Process – 1999).

The main objective of this dialogue is to ensure constructive exchange of views between European Social Partners, the Council, the Commission and ECB on the right policy mix to spur high non-inflationary growth. These meeting take place twice a year and are also an important element of the governance framework of monetary union.

4. **Conclusion**

The institutional structures of EMU were established to bring about stronger growth and more economic stability through a clear set of objectives: low inflation, low interest rates, fiscal discipline and a drive for national reforms. There have been important successes but also significant slippages for instance in terms of budget consolidation and structural reform efforts in some MS - larger ones in particular. This suggests important weaknesses in current coordination instruments like the SGP but also the Lisbon strategy for growth and jobs. There are also many new MS, which also need to be accommodated. There is a need for continuing development that can take place within the existing structures laid down in the treaties.

1. There is a need to put greater emphasis on the role of the Eurogroup, which the Reform Treaty - hopefully soon to be ratified in Ireland - provides for. The Eurogroup should stimulate more peer pressure and ensure proper coordination of budgetary and reform policies in order to increase the economic and political cohesion of monetary union. Common positions must also be promoted more forcefully on global economic issues, such as exchange rate misalignments, in order to reinforce EMU's voice at the international stage.
2. Fiscal discipline must be considered as a public good, for which member states must feel individually and collectively responsible. While strict enforcement of SGP provisions should be ensured, a greater emphasis is required on the quality and sustainability of government finances and on growth enhancing measures as a way of rectifying fiscal imbalances.
3. At the same time, the EU must go further than the SGP and promote a debate on successful national fiscal frameworks: We need a better understanding what rules and institutions are best able to fight fiscal indiscipline and gradually build a consensus on the appropriate framework, as was done for monetary policy (all major central banks are independent, have a medium-term inflation objective and are accountable in front of parliaments/treasuries).
4. The Commission must play a strong role in independently assessing the reforms under the Lisbon agenda that would be the most efficient for the economic circumstances for each MS.
5. The Reform process should be given a much greater place in national debates. Research has shown that countries with a partnership approach to policy decisions tend to adopt multiannual fiscal programmes based on key budgetary parameters and tend to have higher growth rates and achieve lower debt. The Lisbon agenda should be allowed to underpin this process, regardless of the model adopted in MS. Again the Reform Treaty recognises and promotes the role of the social partners in this respect.
6. Regarding future enlargements of EMU, the Maastricht criteria are on the whole still valid benchmarks for successful membership. A locked-in exchange rate against 13+ other nations and the loss of monetary authority is quite demanding on economic structures. It requires flexible markets and well designed microeconomic, budgetary and wage policies. In order to measure candidate countries' ability to meet these requirements, and in the absence of proper coordination in most of these policy areas, nominal convergence criteria are justified.

7. However, while the inflation criterion is an important reference in aiming at nominal convergence, it is necessary to acknowledge that a benchmark using the average of the three lowest inflation rates leaves some room for discussion, as this average can for instance include EU countries that are not in the euro area. The ECB's definition of price stability could be in this case a more appropriate benchmark, notably because EU enlargement potentially increases the range of inflation trends at the national level.
8. Ultimately, what is really at stake is the process of sustainable convergence in monetary union. The Maastricht criteria are an important set of instruments to create awareness and foster reforms to support this process.
9. But what matters most at the national level is flexible micro- and macroeconomic structures to respond and adapt to country specific circumstances. It is therefore essential that prospective members are given, in the context of the EU growth and jobs strategy, clear guidance as regards structural reforms needed for successful euro-area membership.