



DG ECFIN

# Assessing EMU after 5 years

**Hervé CARRÉ & Declan COSTELLO**  
*Directorate General for Economic and Financial Affairs*

**“Five years of the euro: successes and new challenges”**  
Dallas, 14 May 2004



DG ECFIN

## Structure of presentation

- Economic performance
- Performance of the EMU institutions
- Financial market developments
- Future challenges



ECUFIN

## Structure of presentation

- Economic performance
- Performance of the EMU
  - Monetary policy
  - Fiscal Policy
- Future challenges



ECUFIN

## The challenges facing EMU

- EMU's unique nature
- Transition phase
- Testing environment



1999/2000

## **EMU expected to contribute to growth and employment via several channels**

- Greater integration
- Macroeconomic stability
- Policy co-ordination
- Accelerate pace of structural reform



1999/2000

## **PART I**

### **ECONOMIC DEVELOPMENTS IN THE EARLY YEARS OF EMU**



MACROECON

# Macroeconomic stability

## Macroeconomic stability indicators, euro area

	Consumer price inflation <sup>1)</sup>	Short-term interest rate <sup>2)</sup>	Long-term interest rate <sup>2)</sup>	Budget deficit (% of GDP) <sup>3)</sup>
1981-1990 <sup>4)</sup>	6.7	6.7	7.6	-4.6
1991-1998	2.7	5.7	6.6	-4.4
1999-2003	2.0	3.5	4.7	-1.8
2003	2.1	2.3	4.1	-2.8

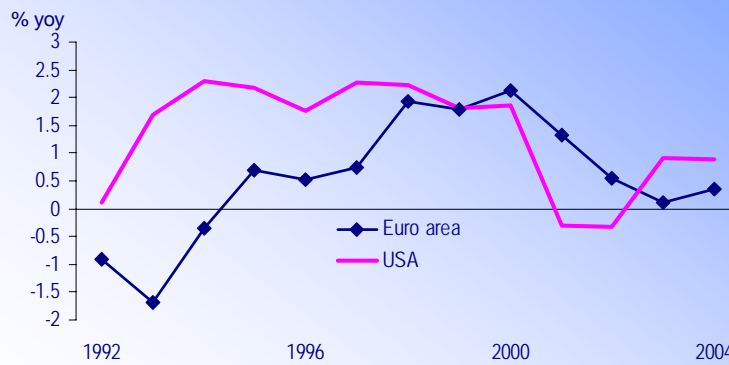
1) National CPI for 1980s, harmonised CPI for 1991-2003, 2) Nominal German rates as a benchmark for the euro area, 3) data according to ESA 95 for 1991-2003, 1981-90 excluding Luxembourg and 1991-98 excluding Spain, excluding UMTS proceeds in 1999-2003. 4) including West-Germany



MACROECON

# Employment performance at par with US since late 1990s

Employment





EUROPEAN UNION

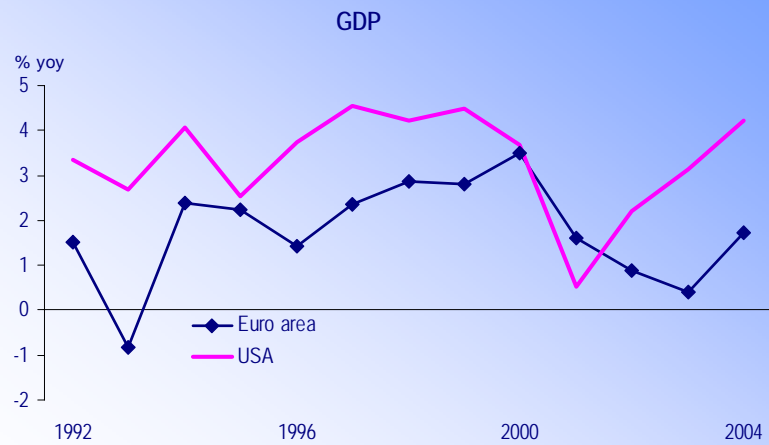
## Large number of shocks hitting the euro area

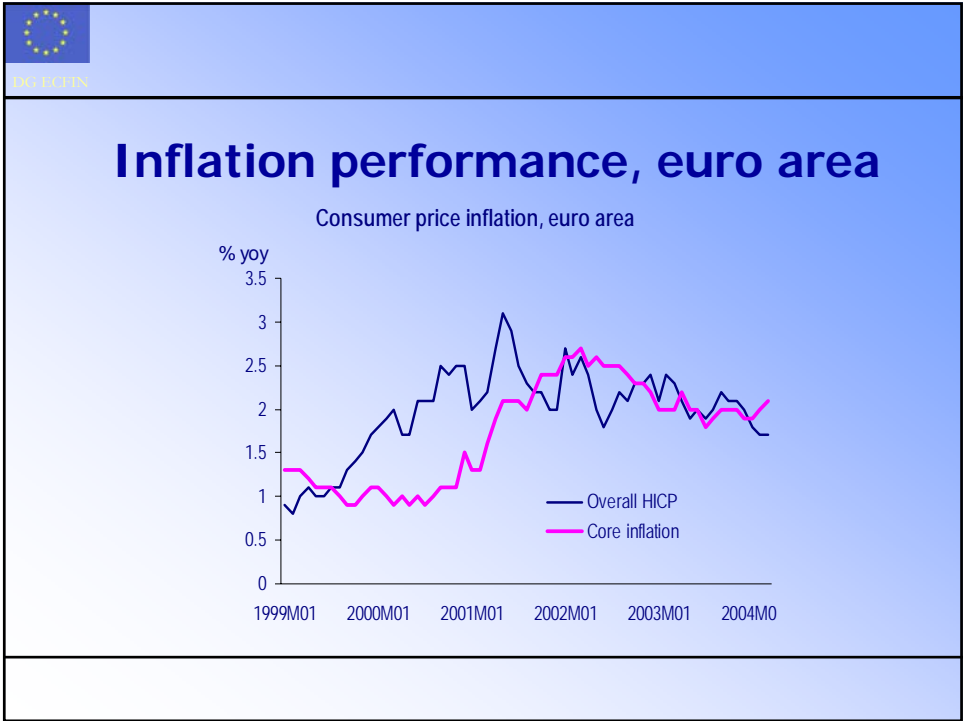
- Asian financial crisis of later 1990s
- Oil price shocks
- Collapse of equity prices
- Decline in world trade
- War in Iraq




EUROPEAN UNION

## GDP growth low in comparison to USA








ECU/DTN

## PART II

### The performance of the macroeconomic framework



ECU/DTN

### Monetary policy

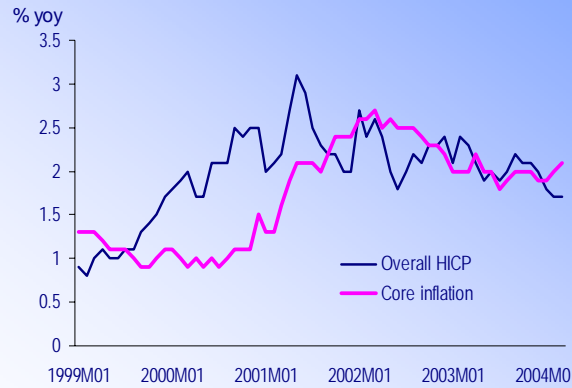
- Did the ECB define and implement an effective single monetary policy ?
- Was price stability achieved and did monetary policy adjust appropriately to changing economic conditions?



ECU/ECB

## Inflation performance, euro area

Consumer price inflation, euro area

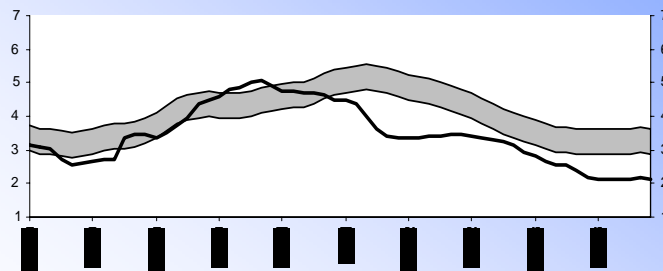


ECU/ECB

## Taylor rate, euro area

Short term interest rate, euro area

Actual and implied by the Taylor rule-



\* Taylor rule based on median inflation



ECU/DTN

## Fiscal policy

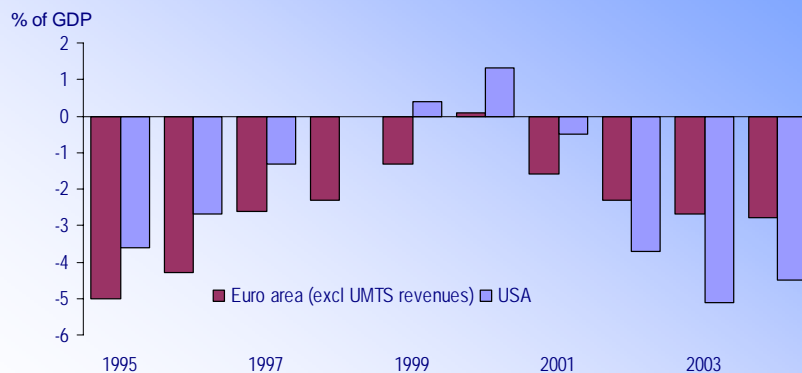
- Are public finances now on a more sustainable footing (deficits and debt)?
- Did the framework help policy makers in the conduct of fiscal policy of EMU?
- Did peer pressure work to reduce deficits ?



ECU/DTN

## Slowdown caused interruption of fiscal consolidation path ...

Budgetary deficits





## Fiscal policy (2)

- Overall disappointing trends, but breach of institutional thresholds does not represent a threat to sustainability
- Progress at an analytical level (growth, sustainability)
- Fiscal rules and peer pressure found wanting in some cases



## PART III Financial market developments



EUROPEAN

## **PART III**

### **Future challenges**



EUROPEAN

### **Fiscal policy (2)**

- Accelerate pace of reforms (Lisbon strategy) to achieve more dynamic growth;
- Establish credibility in the fiscal policy framework
- Integration and real convergence of accession countries
- Ageing populations