

MASTER FILES
ROOM C-525

0409

BUFF/94/58

June 10, 1994

Concluding Remarks by the Chairman
European Union - Common Policies and Recent
Institutional Developments
Executive Board Seminar 94/5, June 6, 1994

Against the background of the Fund's efforts to strengthen surveillance of regional developments, Directors welcomed this opportunity to discuss, in informal session, a broad range of issues related to policy and institutional developments in the European Union (EU). Indeed, Directors have emphasized that regular contacts and discussions between the Fund and the EU institutions and member countries form a vital link for enhancing the regional focus of Fund surveillance, and a number of speakers have focused their remarks particularly on these surveillance issues. In that context, the staff paper was seen to be another useful step toward enhancing regional surveillance of the European Union. The staff was invited to build on this work and on the seminar discussion with a view to drawing more substantively on the impact of EU policies on EU members themselves, and on other countries.

In this context also, Directors remarked on the important strides that the Union has made in strengthening the institutional framework for the surveillance and coordination of macroeconomic policies--a development that is important not just from the perspective of the Union's own goals of further economic and monetary integration but also in the context of the Fund's broader interests in fostering conditions that promote a prosperous and stable world economy. Directors particularly welcomed the establishment of the European Monetary Institute (EMI), which will have a crucial role to play in laying the foundations of European Monetary Union (EMU). Directors also recognized the work carried out at the national level in order to fulfill the obligations deriving from the Maastricht Treaty, and in particular, the important reforms aimed at establishing the independence of central banks and the work of the Committee of Governors to ensure that the EMI is given a strong foundation.

Directors have remarked on the increasing importance of assessing, on a continuous basis, developments in Europe and their implications for the global economy. Here, contact between the Fund and EU institutions, particularly the EMI and EU members, is especially important, not only for enhancing the effectiveness of Fund surveillance over the policies of individual EU member countries but also for contributing a global perspective to policy coordination within the Union. While Directors generally see EU surveillance and the Fund's regional surveillance as mutually reinforcing and are agreed on the importance of ongoing Fund contacts with regional institutions, there is some divergence of views regarding the form that our surveillance and contacts should take. While many Directors have urged a regular informal exchange of views between the Fund and the European

institutions, some others have suggested that there might be regular Article IV or Article IV-type consultations with the European Union--"a global institution looking at the global implications of regional policies," while several Directors--stressing that responsibility for monetary policy in the Union continues to rest with national authorities--consider formal consultations with the European Commission to be inappropriate and have reminded us that "policy discussions can only be meaningful if held with those responsible for them."

I have taken note of Directors' suggestions on areas where the Fund should be "proactive"--inter alia, ensuring that EU and Fund surveillance avoid overlap; advising on the credibility of the programs for moving to EMU; assessing the impact of an enlarged European market on other countries; and reviewing the lessons that the EU experience can provide for other countries, for instance, regarding the integration of banking regulations.

Turning now to the issues raised in the staff paper, Directors observed that the EU objectives are such that more ambitious policies will be needed if they are to be achieved in accordance with their timetable. The staff and the Executive Board needed to explore what would be the fastest and surest way for the members of the Union to reach their goals. Directors also observed that EU members, as well as the rest of the world, had a stake in meeting its goals and in avoiding another setback such as had been experienced in 1993. Convergence was a necessary but insufficient condition for the achievement of monetary union. In that light, Directors considered that fiscal consolidation still had a long way to go and the strategy to reduce unemployment would need to give much greater emphasis to labor market deregulations, removal of distortions, and welfare reform. Budgetary consolidation also has still a long way to go, and I noted that a few Directors considered that, even if the journey is long, it should not start prematurely, while a few others observed that the journey should not be delayed until the path is perfectly prepared. All this, several speakers emphasized, argued for laying the groundwork for effective Fund surveillance over the European Union.

Concerning the EU's common policies, there is a broad consensus that the steps taken to promote further integration of internal markets have represented a notable achievement. Policies specifically directed at market integration have been complemented by reforms in the common agricultural policy (CAP) and trade liberalization with countries in transition in central and eastern Europe. In agriculture, Directors noted that the degree of protection provided by the CAP was being lowered considerably, but some stressed that more remained to be done, observing in particular that the system remained one of minimum prices and trade protection, with important barriers to market access. Concerning the association agreements with countries in central and eastern Europe, Directors were generally impressed with the speed of liberalization for industrial products, although there were some concerns about the uncertainties posed by the use of safeguard and anti-dumping clauses.

In recognizing the important strides in strengthening the Union's institutional framework for the surveillance and coordination of macro-economic policies, Directors have remarked on the extent to which the enhanced surveillance process entails the formulation of broad-ranging economic strategies at the Union level, with quite specific goals set in some areas of policy. We found ourselves in broad agreement with the general aims of the macroeconomic strategy outlined at the December 1993 meeting of the European Council, as well as with the need in the current circumstances to focus on imbalances in public finance and on unemployment. With respect to specific policies, the Union-wide goals that have been established in the fiscal area are consistent with what we have been recommending in the context of the WEO and our Article IV consultations. In the area of the labor market, however, while there is much that is worthwhile in the Union's strategy, Directors generally believe that the unemployment problem cannot be tackled effectively without greater emphasis on measures to address the adverse incentives resulting from minimum wage and other labor market regulations and from overly generous welfare benefits.

We will have to reflect further on the issues that Directors have raised in the course of our seminar, particularly as they relate to our surveillance procedures. In the future, we will, as you have urged, focus more on policy rather than institutional developments and broaden the scope of our work to cover, among others, issues related to interaction between the European Union and countries outside Europe, and the impact of convergence criteria and prospects for EU enlargement on Europe and on the global economy. I take reassurance from views expressed by Executive Directors that EU surveillance guidelines need to remain fully convergent with the Fund's own surveillance.

I will certainly be in touch with members of the Board before the next steps in our conversations with European countries and institutions to make sure that all of that is handled according to the consensus of this Board.

