Contents

	— Economic developments in the early years of EMU
Sui	mmary
1.	The assignment of economic policies in EMU: expectations and challenges
2.	Assessing economic performance in the early years of EMU
	2.1. Macroeconomic stability
	2.2. Economic growth
	2.3. External developments
	2.4. Lack of robustness of domestic demand
3.	The policy-mix
	3.1. Expectations at the start of EMU
	3.2. Developments in monetary policy
	3.3. Developments in fiscal policy
	3.4. Developments in other policy areas
	3.5. Overall assessment of the policy-mix
4.	The contribution of EMU to nominal convergence and real convergence
	4.1. Expectations at the start of EMU
	4.2. Developments in nominal convergence
	4.3. Cyclical convergence in EMU
	— The macroeconomic policy framework
Su	mmary
1.	Monetary policy
	1.1. The monetary policy framework in EMU
	1.2. A monetary policy strategy for an uncertain environment
	1.2.1. The ECB's monetary policy strategy
	1.2.2. The ECB's definition of price stability
	1.2.3. Analysis of the risks to price stability
	1.2.3. Analysis of the risks to price stability
	1.2.3. Analysis of the risks to price stability
	1.2.3. Analysis of the risks to price stability 1.3. The independence and accountability of the ECB 1.4. How successful has monetary policy been? 1.4.1. Price stability
	 1.2.3. Analysis of the risks to price stability 1.3. The independence and accountability of the ECB 1.4. How successful has monetary policy been?

An	nex —	- The changeover to euro notes and coins
2.	Fisca	al policy
	2.1.	The EU's fiscal framework
		2.1.1. The rationale for a rules-based fiscal framework and its main features
		2.1.2. Expectations at the start of EMU
	2.2.	Were the deficit and debt objectives met?
		2.2.1. Budgetary outcomes
		2.2.2. Did the fiscal framework influence national budgetary choices?
	2.3.	Did the fiscal framework evolve effectively to deal with emerging budgetary challenges?
		2.3.1. Efforts to improve the framework for budgetary surveillance
		2.3.2. The debate on the conduct of fiscal policy in EMU
	2.4.	Did the budgetary framework help countries to correct budgetary imbalances?
		2.4.1. Experiences in the initial years of EMU
		2.4.2. Recent efforts to strengthen the framework for budgetary surveillance
3.	Wag	ge developments
	3.1.	Expectations regarding wage developments and wage formation in EMU
		3.1.1. The approach to assessing wage developments and wage formation in EMU
		3.1.2. Some recent evidence on nominal wage rigidity in Europe
	3.2.	An assessment of wage developments in the early years of EMU
		3.2.1. Wage and unit labour cost developments
		3.2.2. Intra-area realignments of labour cost competitiveness
		3.2.3. Evolution of wage-bargaining systems
Sur 1.	mmary Expe	ectations regarding the impact of EMU on financial markets
2.	Struc	cture of the euro-area financial system
	2.1	Overview
	2.2	Banking sector and other financial intermediation
	2.2.	Banking sector and other financial intermediaries
	2.3.	Money and financial markets
		markets and markets for derivatives
		2.3.2. Fixed income markets
		2.3.3. Equity markets2.3.4. Market infrastructure
3.	Polic	cy initiatives
	3.1	Reforming FII financial regulation
	3.2	Reforming EU financial regulation .
	5.2.	opgrading cross-border supervision
	3.3.	Improved corporate governance
		Market integration and structural meteors to program
rt IX	/ N	
rt IV	/ — N	Market integration and structural reform in EMU
Sui	mmary	·
rt IV Sur 1.	mmary Prod	luct market integration
Sui	mmary Prod 1.1.	luct market integration Expectations as regards the impact of EMU on market integration
Sui	mmary Prod 1.1.	Expectations as regards the impact of EMU on market integration Five years of experience with the euro
Sui	mmary Prod 1.1.	luct market integration

			1.2.3.	Changes in the industrial structure	148
				Macroeconomic effects of product market integration	149
				tional aspects: policy coordination in product markets	150
	2.			e labour market	153
		2.1.	Introdu	action	153
			2.1.1.	Expectations on the impact of EMU on labour markets	153
				The approach to assessing the impact of EMU on labour markets	154
				r market outcomes in EMU	155
		2.3.	Assess	sing the impact of EMU on labour markets and vice versa	160
			2.3.1.	Flexibility in EMU and labour market policies/institutions	160 163
			2.3.2.	Reform efforts in EMU	103
Par	t V	— Т	he eur	ro in the international economy	169
	Sur	nmarv	,		171
	1.	Expe	ectation	s at the start of EMU	173
	2.			tional use of the euro by the private sector	175
	3.			tional use of the euro by the official sector	179
	<i>3</i> .	The	ento ar	ea's contribution to global policy coordination	181
	٦.	1 IIC	Racka	ground	181
				al coordination on external positions and exchange rate policy	181
				nal representation of the euro area	184
Pai	rt V	I — I	Memb	er States that have not yet adopted the euro	187
	Sui	mmarv			189
	1.	The	old Me	mber States outside the euro area and the question of euro membership	191
				luction	191
				peconomic policy frameworks	192
				conomic performance of Denmark, Sweden and the UK	193
				des towards euro entry	201
	2.			nd the new Member States	204
	ے.			luction	204
		2.1.	Macra	oeconomic performance of the new Member States	204
		2.2.		tural characteristics of the new Member States	212
				enges facing the new Member States on the road to euro adoption	218
		2.4.	Chan	enges rueing the new Member states on the road to the and and the	
Ril	alios	ranl	nv		223
		> F	<i>J</i>		

Tables

I.1.	Macroeconomic stability indicators, euro area	24
I.2.	Main trade partners of the euro area	27
I.3.	Impact of a USD 12 increase in oil prices, euro area	27
I.4.	The impact of a 20 % drop in equity prices on real GDP growth, EU	28
I.5.	Contributions to annual growth in private consumption (2000–03, euro-area)	34
I.6.	GDP and employment, average annual growth rates (1990–2003)	35
I.7.	Decomposition of GDP growth rates, euro area and the United States (1980–2002)	37
1.8.	Budget deficits in 2000–03, euro area	40
II.1.	Estimates of output gaps in the euro area and the United States	79
II.2.	Macroeconomic effects on the euro area of a sudden and strong euro appreciation against the US dollar	80
II.3.	Euro-area real effective exchange rate to May 2004	81
II.4.	Nominal budget balances	93
II.5.	General government gross debt	95
II.6.	Age-related expenditure long-term trends in EU-15 countries	100
II.7.	Long-term debt to GDP ratio in EU-15 countries	101
III.1.	Share of corporate loans in financial liabilities (1997–2002)	125
III.2.	Share of the five largest credit institutions in total assets (2002)	125
III.3.	Market share of branches and subsidiaries of foreign credit institutions	126
III.4.	Matching of firm-intermediary nationality	126
III.5.	Breakdown of the assets of the equity mutual funds operating in the euro-area countries	127
IV.1.	The effects of the SMP and EMU on EU product markets	142
IV.2.	Evolution of the production and trade specialisation of the EU Member States (1970–97)	149
IV.3.	Evolution of intra-industry trade inside the EU (1980–2001)	150
IV.4.	Employment in the EU Member States	158
IV.5.	Unemployment in the EU Member States	158
IV.6.	Job tenure of employees, 2002	159
IV.7.	Employment and unemployment in the acceding countries, 2003	160
IV.8.	Main types of labour market flexibility	161
IV.9.	Euro-area labour market reforms in response to the BEPGs, 1999–2003	164
IV.10.	Reforms of EPL and temporary contracts, late 1990s-2003.	166
V.1.	The euro area in the world economy	173
V.2.	The euro as an international currency	174
V.3.	The share of the euro as a settlement/invoicing currency	177
V.4.	Share of the euro in international trade of acceding countries	178
V.5.	Official holdings of foreign exchange by currencies.	180
VI.1.	Growth and stability performance compared	193
VI.2.	Potential output growth and its determinants	198

VI.3.	New Member States: Population, GDP per capita and GDP levels	205
VI.4.	New Member States: Selected economic indicators	206
VI.5.	New Member States: Public finances in 2002	211
VI.5. VI.6.	New Member States: Public pension expenditures in 2000–50	212
VI.0. VI.7.	New Member States: Sectoral value added in 2001	213
VI.7. VI.8.	New Member States: Sectoral breakdown of employment in 2001	213
VI.8. VI.9.	New Member States: Labour market characteristics in 2002	214
VI.3. VI.10.	Monthly labour costs per employee and unit labour costs in manufacturing	215
VI.10. VI.11.	New Member States: Knowledge-based economy	216
	New Member States: Product market reforms	218
V1. 12.	New Member States, Frodge Manager States	
Graphs		
I.1.	Output gap	26
I.2.	Stock market prices	28
I.3.	World import demand and euro-area growth performance	29
I.4.	Investment and interest rates, euro area	31
1.5.	Non-financial corporate sector debt, euro area	32
I.6.	Household saving rate in cyclical downturns, euro area	33
I.7.	Employment performance, euro area	34
I.8.	Household actual and simulated consumption, euro area	35
I.9.	Trend growth and its components	36
I.10.	Household saving and fiscal deficit, euro area	41
I.11.	Real unit labour costs and its components	42
I.12.	US macroeconomic policies	42
I.12.	Euro-area macroeconomic policies	43
I.14.	Inflation dispersion in the euro area	45
I.15.	Inflation dispersion in the euro area and the United States	49
I.16.	Cyclical convergence in the euro area (standard deviation)	51
I.17.	Cyclical convergence in the euro area (correlation)	51
I.18.	Convergence in short-term interest rates, euro area	52
I.19.	Convergence in fiscal policy, euro area	53
1.20.	Fiscal policy in the 1992–94 downturn, euro area	53
1.21.	Fiscal policy in the 2001–03 downturn, euro area.	54
I.22.	Cyclical peak and subsequent change in the output gap, euro-area Member States	55
1.23.	Real convergence in the euro area	56
I.24.	Growth and catching up in the euro area	57
77 1	Euro-area — headline and core inflation	72
II.1.	Policy interest rates in the euro area and the United States	74
II.2.	Euro-area inflation perception	75
II.3.	Changes in perceived inflation across Member States — 2002	76
II.4.	Euro-area MCI	77
II.5.	Euro area — short-term interest rate	78
II.6.	Euro area — snort-term interest rate	, 5

II.7.	Bilateral exchange rates USD-EUR	82
II.8.	Nominal budget balances in the euro area, 1992–98	92
II.9.	Fiscal stance and cyclical conditions in the euro area, 1992–2003	92
II.10.	Euro-area GDP in absence of fiscal discipline, simulation with the Commission QUEST model	95
II.11.	Stabilisation effect provided by the budget in response to a consumption shock	101
II.12.	Budget deficits and procedures launched by the Commission and the Council	102
II.13.	First year output response to a 1 % disinflationary shock	109
II.14.	Nominal wage and unit labour cost developments	110
II.15.	Real unit labour cost developments	110
II.16.	Real wage gap indicator (1970 = 100)	112
II.17.	Intra-euro-area effective exchange rates (1998–2005)	114
II.18.	Wage share 1995–2002 and the degree of bargaining coordination	114
II.A1.	Euro changeover scenario	84
II.A2.	Euro banknotes and coins in circulation	86
II.A3.		86
II.A4.	Support for the euro	87
II.A5.	The perception of inflation in the euro area	88
11.715.	The perception of influence in the case area *********************************	
III.1.	Comparison of financial structures: Size of world capital markets and bank assets in 2002	124
Ш.2.	Dispersion in euro-area sovereign debt yields	129
Ш.3.	Gross and net issuance volumes in euro-area bond markets	130
III.4.	Gross issuance of euro-denominated bonds (1999–2003)	131
IV.1.	Real trade in goods with the euro area and other EU countries	146
IV.2.	Inward foreign direct investment share of non-EMU countries into EU-15 total	147
IV.3.	Price convergence	148
IV.4.	Unemployment in the euro area, 1992–2003	156
IV.5.	Employment in the euro area, 1992–2003	156
IV.6.	Changes in the tax wedge, 1998–2002	165
IV.7.	Net replacement rates for a single person on a low wage, 2001–02	165
V.1.	International debt markets by currency	175
V.2.	Foreign exchange turnover by currency	176
V.3.	International bank liabilities by currency	177
V.4.	The exchange rate of the euro versus the US dollar and the yen.	184
VI.1.	Monetary and fiscal policies in Denmark Sweden, the LIV and the sure area	195
VI.1. VI.2.	Monetary and fiscal policies in Denmark, Sweden, the UK and the euro area	196
V1.2. V1.3.		197
V1.3. V1.4.	Euro exchange rates	200
	Employment protection legislation (EPL) and product market regulation (PMR)	200
VI.5. VI.6.	Unemployment rate	206
	1	207
VI.7.	Harmonised consumer price index, 1997–2003	201

VI.8.	Current account balance, 1995–2002	209
VI.9.	Investment ratios, 1995–2002	210
VI.10	Old-aged dependency ratio, 2000 and 2050	211
VI.11	1 -1:- 2001	215
VI.12		217
Boxes		
I.1.	Measures to strengthen economic governance in the euro area.	23
I.2.	GDP and productivity performance in the euro area and the United States	35
I.3.	Shocks and adjustment	46
I.4.	Sources of inflation differences in EMU and policy implications	50
I.5.	Developments in long-term growth convergence	56
II.1.	On the disconnect between perceived and actual inflation	75
II.2.	The impact on inflation of exchange rate changes	80
II.3.	Efforts to improve the coordination of budgetary policies in EMU	105
II.4.	A real wage gap indicator for the euro area	112
III.1	Financial integration and growth	122
III.2	TOTAL Control of the	135
IV.1	. The European employment strategy	155
IV.2	. The Lisbon employment targets	157
IV.3	Reforms of employment protection legislation	164
IV.4		167
VI.1	. The new Member States and their transition to the euro area	220