



Resolution 1378 (2004)¹

The euro and the Greater Europe

Parliamentary Assembly

1. As the euro concludes its first five years of serving as the single currency for 12 of the European Union's 15 member states and as the EU has successfully completed its enlargement from 15 to 25, the Parliamentary Assembly of the 45-member state Council of Europe recalls its earlier statements on the Economic and Monetary Union (EMU), in particular [Recommendation 1195 \(1992\)](#) and [Resolution 1109 \(1997\)](#), and reaffirms its duty, in the words of the former, to “enhance a constructive co-operation between members states of the European Community and the rest of Europe”.

2. The first five years of the euro have seen considerably increased price transparency and greater integration of financial markets. Meanwhile, however, sluggish growth over several years in the major EMU economies is a source of concern.

3. The Assembly welcomes the considerable preparations by the new EU member states to join the eurozone at the earliest opportunity and hopes that every effort will be made by the existing EMU members to facilitate this process, in the interest of European solidarity and continued economic integration and growth.

4. The procedure of joining the EMU promises, however, to be anything but easy, especially for the new EU members, placing great strain on their currency stability and public finances. It is therefore vital that the terms for joining the EMU be made sufficiently flexible, for instance by adopting the wide band used for the launch of the euro in 1999 as the range of fluctuation in the Exchange Rate Mechanism II (ERM-II), which will allow the currency to be “locked” into the euro.

5. The Assembly expresses its concern over the problems encountered by France, Germany, Greece, Italy, the Netherlands and Portugal with the provisions of the Stability and Growth Pact and fears that, unless speedily addressed, any violations will lead not only to diminished confidence in the currency but also to reduced prospects of seeing the three pre-existing EU members (Denmark, Sweden and the United Kingdom) join the EMU at an early date, and to complications for the ten countries that became members of the EU in 2004 with regard to joining the EMU. These tensions are inherent in a pact that relies solely on contemporary data, and fails to assess member states' compliance over a full economic cycle. However, as long as the pact exists in its current form, it should be respected. But urgent thought must be given to ways of improving the pact, both to make it better-heeded and to improve its functioning.

6. The pronounced strengthening of the euro against the dollar poses a particular challenge, as it threatens to weaken the emerging recovery in the major EMU economies by reducing exports to the US and to other countries whose currencies have weakened at the same time as the dollar. It would be reasonable to expect these countries – especially Japan and China – to share with the euro the burden of appreciation against the dollar.

7. A strong euro will further dampen eurozone inflation and so permit an earlier easing of monetary conditions by the European Central Bank than would otherwise have been possible. In the meantime, EMU countries must do their utmost to revive domestic demand on the part of consumers and industry, by pursuing

1. Assembly debate on 21 June 2004 (17th Sitting) (see [Doc. 10188](#), report of the Committee on Economic Affairs and Development, rapporteur: Mr Walter). Text adopted by the Assembly on 21 June 2004 (17th Sitting).



structural reform in all areas, bearing in mind the fact that remaining market imperfections add to inflation and hamper economic activity. This includes, in particular, completing the establishment of the EU's Internal Market, whose provisions some EMU members have been particularly slow in implementing.

8. The Assembly, in conclusion, stresses the importance of, firstly, ensuring observance of the Stability and Growth Pact, secondly, reviving economic activity in the eurozone through structural reform, and finally, facilitating the entry of new EU members into the EMU as soon as possible. If these measures succeed, the euro will be able to fulfil the mission for which it was created, namely to permit the European Union to play a political role in the world commensurate with its other achievements.