

Press release

Monetary Panel (Brussels - 20 March 1998)

The Monetary Panel of ELEC met on 20 March, 1998 in Brussels and issued the following Communiqué:

- 1.** The Panel applauds the progress made by all EU States towards sound and durable financial conditions although a lot of work remains to be done, particularly as concerns structural rigidities. The benefits of EMU are already being experienced by European economies - reflected in the achievement of price stability and long term interest rates that, in many countries, are the lowest since the War. It seems probable that 11 States can safely be judged to be sustainably convergent. It is crucial that entry standards should not be lowered as this could threaten the long-term credibility of EMU.
- 2.** The period between 3 May and 31 December will pose unique problems for monetary coordination. However, market conditions seem calm at present and the divergences between ERM central parities and the 4/1/99 forward exchange rates are minimal - suggesting that markets believe that there will not be any serious problems. In part, that confidence is a reflection of the political commitment to sound finance that has been sustained for several years, sometimes at a substantial price to the political leaders who implemented the measures.
- 3.** Accordingly, it is essential that there is no backsliding after States have gained entry to EMU and the Panel welcomes the idea of enhancing the common mechanisms to monitor the budgets for 1998 and 1999. The stronger the surveillance, and early detection of any problems, the more likely that financial markets will continue to finance governments at such low interest rates that sustainability is underpinned. It is crucial that economic policy coordination cover also structural policies, in particular policies aimed at increasing employment.
- 4.** With the emergence of bond and money markets that rival the size of the dollar markets in about 200 business days, the euro should begin to become a major international currency in its own right. It is time to think about the way in which the positive contribution of the euro-zone to international financial and monetary stability can be enhanced.
