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MACRO-ECONOMIC AND FINANCIAL STABILITY IN THE COUNTRIES IN THE PROCESS OF ACCESSION: COUNCIL STATEMENT

The Ecofin Council would like to contribute to the preparation of a fully successful economic integration of candidate countries with which negotiations are under way (i.e. accession countries) and their accession to the European Union. In this context, the Ecofin Council discussed the economic situation in the accession countries, with a view to assist them in defining their strategy for economic integration into the European Union. For this discussion, the Ecofin Council took note of the Commission note "Progress towards meeting Copenhagen economic criteria by accession countries and the need for macro-financial stability assessments". The Commission note presents the results of the economic chapter of the Regular Reports and the Strategy Paper on progress made towards meeting the Copenhagen economic criteria with respect to the macroeconomic situation and structural reforms, and proposes an economic dialogue with accession countries in the area of macro-economic and financial stability.

The Council considers that the accession countries have generally made progress towards meeting the two parts of the Copenhagen economic criterion namely, first, the "existence of a functioning market economy" and, second, "the ability to cope with competitive pressure and market forces within the Union".

According to the Commission note, significant differences still exist among accession countries. The note also states that they could be considered as functioning market economies or have made significant progress in that direction. The accession countries should be able in the coming years to cope with competitive pressure and market forces in the Union, provided they maintain the appropriate path to structural reform. A sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of stability and increased certainty exists in most countries. Countries where the market mechanisms are working will be better able to cope with, and adjust to, competitive pressure and market forces within the Union.

Accession countries should continue the transformation of their economies and their economic catching-up consistent with pursuing efforts to meet the Copenhagen criteria and preparing for EU membership. The Ecofin Council shares the accession countries' ambition for an accelerated catching-up process.

In the process of economic integration into the EU, accession countries will need to continue with economic reform. The prospects for real and thereby sustainable nominal convergence will depend, *inter alia*, on these countries' commitment to pursuing, first, macro-economic stability and, second, financial stability, building on the progress that they have made to date.

On the first point, ensuring macro-economic stability will require an adequate degree of price stability, while enabling rapid growth in output, and ensuring that balance of payments imbalances are predominantly financed by long-term capital that can finance the significant investment needs. Moreover, ensuring medium-term sustainability of public finances, in a context where infrastructure upgrading is needed to support economic competitiveness, and avoiding exchange rate volatility in the context of significant capital inflows is key.

On the second point, ensuring the stability of the still underdeveloped financial systems in the accession countries will require completing the preparation of the banking system for increased competition, strengthening of the regulatory and supervisory framework, securing its implementation, technically sound payments systems, and improving the general legal and business environment, with the aim of improving the capacity of the financial system to finance productive investment.

The Council considers that a **regular in-depth dialogue** with accession countries on a large spectrum of macro-economic policy and financial stability issues will assist the accession process. It could be used both as a means to identify risks and vulnerabilities in

these countries and as a way to help them define their strategy for economic integration into the EU. Such a dialogue would further enhance the cooperation and the exchange of information between existing and future Member States ahead of their accession. Without prejudice to the pre-accession process and the evaluation of the Copenhagen criteria that are effected in the context of the accession negotiations, the Council invites the Commission to annually produce assessments of macro-economic and financial stability in the accession countries. For supporting the economic dialogue with accession countries, the Council wants the Pre-accession Economic Programmes presented by accession countries, their evaluation by the Commission and the macro-financial stability assessments to be discussed in a meeting, including the EFC members and high level representatives of accession countries, which could be organised by each Presidency, starting with the Swedish in the first half of 2001. The Commission is invited to report each year to the Council (Ecofin) on its assessment of the fiscal notification and the Pre-accession Economic Programmes, which are to be presented by the accession countries from 2001 onwards, as well as on the conclusions of the high level meeting.

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