Contents

Tables 9		
Graphs 11		
Abbreviations used	in the report 13	
1. Introduction and	conclusions 15	
1.1. Role of the rep	ort 15	
1.2. Compatibility o	f legislation and convergence. 17	
1.3. Assessment fo	r each Member State. 24	
1.3.1. Belgium	24	
1.3.2. Germany	25	
1.3.3. Greece	27	
1.3.4. Spain. 28		
1.3.5. France	30	
1.3.6. Ireland.	31	
7.3.7. Italy. 32		
1.3.8. Luxembourg	34	
7.5.9. Netherlands	35	
7.3.70. Austria	36	
7.3.77. Portugal	38	
7.3.72. Finland	39	
7.3.73. Sweden	41	
	national legislation with the Treaty	
	he European System of Central Banks	43
2.1. Introduction	43	
	ssary adaptation of national legislation	43
2.2.7. General	43	
2.2.2. Objectives	44	
2.2.3. Independence		
2.2.4 Integration of		
and other legislation		
2.25. Legislation	outside the scope of Article 108 48	

2.3. Timing of adaptation 48	
2.4. Situation in the Member States	50
2.4.1. Belgium 50	
2.4.1.1. Overview and legislative	
action taken since 1994 50	
2.4.1.2. Assessment of compatibility 52	
2.4.2. Denmark 52	
2.4.3. Germany 54	
2.4.3.1. Overview and legislative	
action taken since 1994 54	
2.4.3.2. Assessment of compatibility 55	
2.4.4. Greece 56	
2.4.4.1. Overview and legislative	
action taken since 1994 56	
2.4.4.2. Assessment of compatibility 58	
2.4.5. Spain. 58	
2.4.5.1. Overview and legislative	
action taken since 1994 58	
2.4.5.2. Assessment of compatibility	60
2.4.5.2. Assessment of compatibility2.4.6. France 60	60
, ,	60
2.4.6. France 60	60
2.4.6. France 602.4.6.1. Overview and legislative	60
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60	60
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62	60
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62	60
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative	60
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62	
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62 2.4.7.2. Assessment of compatibility	
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62 2.4.7.2. Assessment of compatibility 2.4.8. Italy. 65	
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62 2.4.7.2. Assessment of compatibility 2.4.8. Italy. 65 2.4.8.1. Overview and legislative	
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62 2.4.7.2. Assessment of compatibility 2.4.8. Italy. 65 2.4.8.1. Overview and legislative action taken since 1994 65	
2.4.6. France 60 2.4.6.1. Overview and legislative action taken since 1994 60 2.4.6.2. Assessment of compatibility 62 2.4.7. Ireland 62 2.4.7.1. Overview and legislative action taken since 1994 62 2.4.7.2. Assessment of compatibility 2.4.8. Italy. 65 2.4.8.1. Overview and legislative action taken since 1994 65 2.4.8.2. Assessment of compatibility	

2.4.9.2. Assessment of compatibility 68
2.4.10. Netherlands 69
2.4.10.1. Overview and legislative
action taken since 1994. 69
2.4.10.2. Assessment of compatibility 71
2.4.11. Austria 71
2.4.11.1. Overview and legislative
action taken since 1994. 71
2.4.11.2. Assessment of compatibility 73
2.4.12. Portugal. 74
2.4.12.1. Overview and legislative
action taken since 1994 74
2.4.12.2. Assessment of compatibility 75
2.4.13. Finland 75
2.4.13.1. Overview and legislative
action taken since 1994 75
2.4.13.2. Assessment of compatibility 76
2.4.14. Sweden. 76
2.4.14.1. Overview and legislative
action taken since 1994 76
2.4.14.2. Assessment of compatibility 80
2.4.15. United Kingdom 80
3. Price stability 83
3.1. Treaty provisions 83
3.2. Price stability as assessed by the HICPs. 84
3.2.1. Recent trends. 84
3.2.2. Inflation developments in relation to the reference value 87
3.3. Inflation performance during the second stage of EMÚ 92
3.4. Underlying factors and sustainability
of inflation performance 95
3.4.1. Price stability as the primary objective
of monetary policy 96
3.4.2. Disinflation process supported

by adequate wage b	ehavio	or	97				
3.4.3. Appropriate domestic reaction							
to changes in impor	t prices	6	103				
3.5. Sustainability of	f price	perfori	mance	reinforc	ed by EM	Ú 105	
Annex: The harmon	ised In	dex of	consu	mer pric	es 10	8	
4. Government budg	getary	positio	n	115			
4.1. Excessive deficit procedure. 115							
D Excessive deficit	proced	ure	116				
4.2. Overview of the	budge	etary s	ituatior	in the N	Member S	States	121
4.2.1. Government of	deficit	122					
4.2.2. Government of	debt		126				
4.2.3. Government i	nvestn	nent ex	kpendit	ure	13	2	
4.3. Sustainability of	f the go	overnn	nent fin	ancial p	osition		133
4.3.1. Influence of the	ne cycl	е		135			
4.3.2. One-off meas	ures		138				
4.3.3. Size and com	positio	n of bu	udgeta	ry adjust	ment	140	
4.3.4. Medium-term prospects 143							
4.3.5. Sustainable debt trends 145							
4.4. Member States now considered ready for abrogation							
of excessive deficit	decisio	ns		149			
4.4.1. Belgium		150					
4.4.2. Germany		154					
4.4.3. Spain	159						
4.4.4. France		163					
4.4.5. Italy	166						
4.4.6. Austria		172					
4.4.7. Portugal		176					
4.4.8. Sweden		180					
4.4.9. United Kingdo	om		184				
Annex : Budgetary surveillance and comparability of figures 188							
5. Exchange rates	197						

5.1. Treaty provisions and application of the exchange rate criterion.

197

n The median currency ap	proach to the	asses	sment		
of exchange rate stability i	n the ERM	200			
5.2. Exchange rate behavi	iour of Memb	er State	e currencie	S.	202
5.2.1. Overall conditions in	n the EMS.	202			
5.2.2. Developments in the	e ERM currer	ncies.	205		
5.2.3. Non-ERM currencie	S	211			
5.3. Assessment of excha	nge rate stab	ility in t	he terms		
of the Treaty criterion	215				
Annex: Approaches to the	appraisal of	exchan	ge rate sta	bility	
in the ERM 217					
6. Long-term interest rates	229				
6.1. Treaty provisions	229				
6.2. Interest rate developn	nents in the N	/lember	States		230
6.3. Assessment of long-te	erm interest r	ate con	vergence		
in terms of the Treaty crite	rion	235			
D Data for the interest rate	e convergenc	e criteri	on	237	
7. Additional factors	241				
7.1. Development of the e	cu 241				
7.2. Results of the integral	tion of marke	ts	24	6	
7.2.1. Evidence of market integration in the Community.					
7.2.2. Consequences of the Community's market integration.					
7.2.3. Implementation of the	ne single mar	ket	253		
7.3. Situation and develop	ment of bala	nces			
of payments on current ac	count. 253				
7.4. Examination of develo	pment				
of unit labour costs and ot	her price Indi	ces	259		
7.4.1. Unit labour costs	259				
7.4.2. Import prices	260				
7.4.3. Producer prices	260				
7.4.4. Indirect taxes	261				