HISTORY OF ECONOMIC AND MONETARY UNION

Economic and monetary union (EMU) is the result of progressive economic integration in the EU. It is an expansion of the EU single market, with common product regulations and free movement of goods, capital, labour and services. A common currency, the euro, has been introduced in the eurozone, which currently comprises 19 EU Member States. All 28 EU Member States — with the exception of the UK and Denmark — must adopt the euro after a minimum of two years' participation in ERM II and fulfilment of the convergence criteria. A single monetary policy is set by the European Central Bank (ECB) and is complemented by harmonised fiscal and coordinated economic policies. Within EMU there is no single institution responsible for economic policy. Instead, responsibility is divided between Member States and various EU institutions.

LEGAL BASIS

— Decisions of the European Summits of The Hague (1969), Paris (1972), Brussels (1978), Hanover (1988), Madrid and Strasbourg (both 1989), and Maastricht (1991-1992);

— Articles 119-144, 219 and 282-284 of the Treaty on the Functioning of the European Union (TFEU);

— Protocols annexed to the TFEU on: the transition to the third stage of economic and monetary union; the excessive deficit and macroeconomic imbalances procedures; the convergence criteria; the opt-out clauses for the United Kingdom and Denmark; and the European System of Central Banks and the European Central Bank, as well as the Eurogroup

OBJECTIVES

EMU is the result of progressive economic integration, and is therefore not an end in itself. The management of EMU is designed to support sustainable economic growth and high employment through appropriate economic and monetary policymaking. This involves three main economic activities: (i) implementing monetary policy with the objective of price stability; (ii) coordinating economic policies in Member States; (iii) ensuring the smooth operation of the single market.

ACHIEVEMENTS

The euro is now part of day-to-day life in 19 Member States of the European Union. Other Member States will eventually adopt it. The single currency presents undeniable advantages: it lowers the costs of financial transactions, makes travel easier, strengthens the role of Europe at international level, etc.

HISTORY OF EMU

At the summit in The Hague in 1969, the Heads of State or Government defined a new objective of European integration: economic and monetary union (EMU). A group headed by Pierre Werner, Prime Minister of Luxembourg, drafted a report which envisaged the achievement of full economic and monetary union within 10 years according to a plan in several stages. The ultimate goal was to achieve full liberalisation of capital movements, the total convertibility of Member States' currencies, and the irrevocable fixing of exchange rates. The collapse of the Bretton Woods system and the decision of the US Government to float the dollar in mid-1971 produced a wave of instability in respect of foreign exchange which called into serious question the parities between the European currencies. The EMU project was brought to an abrupt halt.

In 1972 (at the Paris Summit) the EU attempted to impart fresh momentum to monetary integration by creating the 'snake in the tunnel': a mechanism for the managed floating of currencies (the 'snake') within narrow margins of fluctuation against the dollar (the 'tunnel'). Thrown off course by the oil crises, the weakness of the dollar and differences in economic policy, the 'snake' lost most of its members in less than two years and was finally reduced to a 'mark area' comprising Germany, the Benelux countries and Denmark.

Creation of the European Monetary System (EMS). Efforts to establish an area of monetary stability were renewed in 1978 (at the Brussels Summit) with the creation of the European Monetary System (EMS), based on the concept of fixed but adjustable exchange rates. The currencies of all the Member States, except the UK, participated in the exchange rate mechanism, ERM I. Exchange rates were based on central rates against the ECU ('European Currency Unit'), the European unit of account, which was a weighted average of the participating currencies. A grid of bilateral rates was calculated on the basis of these central rates expressed in ECU, and currency fluctuations had to be contained within a margin of 2.25% either side of the bilateral rates (with the exception of the Italian lira, which was allowed a margin of 6%). Over a 10-year period, the EMS did much to reduce exchange rate variability: the flexibility of the system, combined with the political resolve to bring about economic convergence, achieved sustainable currency stability.

With the adoption of the Single Market Programme in 1985, it became increasingly clear that the potential of the internal market could not be fully exploited as long as relatively high transaction costs linked to currency conversion and the uncertainties linked to exchange rate fluctuations, however small, persisted. Moreover, many economists denounced what they called the 'impossible triangle': free movement of capital,

exchange rate stability and independent monetary policies were incompatible in the long term.

In 1988, the Hanover European Council set up a committee to study EMU under the chairmanship of Jacques Delors, the then Commission President. The committee's report (the Delors report), submitted in 1989, proposed strengthening a three-stage introduction of EMU. In particular, it stressed the need for better coordination of economic policies, rules covering national budget deficits, and a new, completely independent institution which would be responsible for the Union's monetary policy: the European Central Bank (ECB). On the basis of the Delors report, the Madrid European Council decided in 1989 to launch the first stage of EMU: full liberalisation of capital movements by 1 July 1990.

In December 1989, the Strasbourg European Council called for an intergovernmental conference that would identify what amendments needed to be made to the Treaty in order to achieve EMU. The work of this intergovernmental conference led to the Treaty on European Union, which was formally adopted by the Heads of State or Government at the Maastricht European Council in December 1991 and signed on 7 February 1992.

The Treaty provides for EMU to be introduced in three stages.

— Stage 1 (from 1 July 1990 to 31 December 1993): the free movement of capital between Member States;

— Stage 2 (from 1 January 1994 to 31 December 1998): convergence of Member States' economic policies and strengthening of cooperation between Member States' national central banks. The coordination of monetary policies was institutionalised by the establishment of the European Monetary Institute (EMI), whose task was to strengthen cooperation between the national central banks and to carry out the necessary preparations for the introduction of the single currency. The national central banks were to become independent during this stage;

— Stage 3 (under way since 1 January 1999): the gradual introduction of the euro as the single currency of the Member States and the implementation of a common monetary policy under the aegis of the ECB. Transition to the third stage was subject to the achievement of a high degree of durable convergence measured against a number of criteria laid down by the Treaties. The budgetary rules were to become binding and a Member State not complying with them was likely to face penalties. A single monetary policy was introduced and entrusted to the European System of Central Banks (ESCB), made up of the national central banks and the ECB.

The first two stages of EMU have been completed. The third stage is still under way. In principle, all EU Member States must join this final stage and therefore adopt the euro (Article 119 TFEU). However, some Member States have not yet fulfilled the convergence criteria. These Member States consequently benefit from a provisional derogation until they are able to join the third stage of EMU. Furthermore, the United Kingdom and Denmark gave notification of their intention not to participate in the third stage of EMU and therefore not to adopt the euro. These two Member States therefore have an exemption with regard to their participation in EMU. The exemption arrangements are detailed in the protocols relating to these two countries annexed to



the founding Treaties of the EU. However, the United Kingdom and Denmark reserve the option to end their exemption and submit applications to join the third phase of EMU. As things now stand, 19 of the 28 Member States have joined the third stage of EMU and thus have the euro as a single currency.

In the aftermath of the European sovereign debt crisis, EU leaders have pledged to strengthen EMU, including by improving its governance framework. In 2015, building on a similar initiative from 2012, the Presidents of the European Commission, European Council, Eurogroup, ECB and European Parliament published a report on Completing Europe's Economic and Monetary Union ('Five Presidents' Report'). It outlined a reform plan aiming to achieve a genuine economic, financial, fiscal and political Union in three stages (at the latest by 2025).

ROLE OF THE EUROPEAN PARLIAMENT

Since the entry into force of the Lisbon Treaty, the European Parliament has participated as equal co-legislator in the ordinary legislative procedure in establishing detailed rules for multilateral surveillance (Article 121(6) TFEU). This involves, inter alia, the preventive part of the Stability and Growth Pact, as well as more diligent macroeconomic surveillance to prevent harmful imbalances following the financial crisis. The ‘six-pack’ strengthened Parliament’s role in the economic governance of the EU, in particular through the introduction of the ‘European Semester’ and the setting-up of an ‘Economic Dialogue’. In addition, Parliament is consulted on the following issues:

— Agreements on exchange rates between the euro and non-EU currencies;

— The choice of countries eligible to join the single currency in 1999 and subsequently;

— The appointment of the President, Vice-President and other members of the ECB Executive Board;

— Legislation implementing the excessive deficit procedure provided for in the Stability and Growth Pact.

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