The Intergovernmental Conference (IGC) on Economic and Monetary Union

Source: CVCE. Pierre Gerbet.

URL:
http://www.cvce.eu/obj/the_intergovernmental_conference_igc_on_economic_and_monetary_union-en-148689f5-0174-45d0-9396-fc48c0d047cf.html

Last updated: 08/07/2016

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The development of the Treaty establishing Economic and Monetary Union (EMU) between the Member States of the Community benefited from a solid starting point in the form of the Delors Report, aiming to phase in a single currency, managed by a Central Bank. The decks had therefore largely been cleared, but the key issues were yet to be resolved.

With regard to the European Central Bank (ECB), the *Bundesbank*, a staunch opponent of the disappearance of the deutschmark, demanded that it have the same status as the Bundesbank, i.e. independent of governments. France accepted the demand, even though its Finance Minister, Pierre Bérégovoy, wanted to offset the Bank's independence by strengthening the Council of Finance Ministers of the Union (Ecofin), in order to transform it into a type of 'economic government' for consultations about budgetary and fiscal policies. However, the Germans were opposed to the idea, fearful of a central control that would threaten the Bank's independence. A decisive choice was therefore made: the single currency, under the authority of the Central Bank would complete monetary union, while economic union would merely consist of national policies, coordinated by the Council of Economic and Finance Ministers. The Member States would still be in charge of their economic policies. However, in the event of crises or disagreements among them, there would be repercussions.

Another problem involved the conditions laid down for participating in the single currency because of the very unequal economic situation among the various countries. Criteria had to be defined in order to maintain the value of the common currency. In this area, France took a harsher stance than Germany. The French President, François Mitterrand, believed that the deficit of total public expenditure (State and local authority budgets and welfare expenditure) should not exceed 3 % of Gross Domestic Product (GDP). He had already imposed the 3 % threshold in France when he had changed tack in 1983 and opted for stricter policies. He did not accept Germany's proposal that investment expenditure should be taken into account and opted for a simpler, stricter rule. Budgetary deficit in France was no more than 1.8 % of GDP in 1992, compared to 3.5 % in Germany, which had to meet the costs incurred during the reunification process. In all of the other countries, barring Denmark, Ireland and Luxembourg, the deficit was, at the time, over 3 %. Italy, where the deficit approached 10 %, believed that joining the single currency was a political choice and should not depend on economic criteria alone. Germany opposed Italy's stance, but France proposed to take trends into consideration in order to assess the performance criteria. As for the United Kingdom, it was clear that it would not agree to join the single currency.

Negotiations were led primarily by the Finance Ministers of the Member States and their Directors of the Treasury, under the Luxembourg Presidency (Jean-Claude Juncker) during the first half of 1991, and under the Netherlands Presidency (Wim Kok) during the second half of the year, without much coordination with the parallel Intergovernmental Conference of the Foreign Affairs Ministers on Political Union.

The aim of Economic and Monetary Union (EMU) was the adoption of a single currency. To this end, the European System of Central Banks (ESCB) was created to establish and manage the single currency. It was made up of the European Central Bank (ECB) and the central banks of the Member States and was independent of national governments, like the Community institutions. Its principal goal was to maintain price stability.

The single currency was to be completed in three stages. The first stage had already been implemented on 1 July 1990 with the liberalisation of capital movements and payments among the Member States and non-member countries. This marked the beginning of consultation to promote the convergence of economic policies. The second stage began on 1 January 1994. The economic policies of the Member States were controlled by the adoption of 'broad guidelines' by the Council, with a view to reducing public deficit. A European Monetary Institute (EMI) was established in order to strengthen cooperation between national central banks and coordination of monetary policies. It was also responsible for laying the groundwork for the transition to the third phase, i.e. the establishment of the European Central Bank and the changeover to the single currency. The date for the third stage was set despite reservations expressed by the Bonn Government, which did not wish to be restricted to a timetable, even though it had received assurances about the Central Bank's independence and the convergence criteria. At the Maastricht European Council held on 9 and 10 December 1991, President Mitterrand, backed by the Italian President of the Council, Giulio Andreotti, decided that EMU would enter into force on 1 January 1997, if most of the Member States satisfied the conditions. Otherwise, the single currency was to be adopted by 1 January 1999 at the latest only by those Member States in a position to do so. It was, therefore, an irrevocable decision.

In order to join EMU, Member States must satisfy several 'convergence criteria': an average inflation rate measured by consumer price stability (not to exceed 1.5 % of more than the average of the three best-performing Member States), and a long-term interest rate that must not exceed by more than 2 % that of the three best-performing Member States. A given currency must have participated in the European Monetary System for at least two years and must not have exceeded the fluctuation margins. Finally, public finances must be sound. Deficit must not exceed 3 % of GDP for public expenditure (central, regional and local governments as well as social security funds), and public debt must remain less or equal to 60 % of GDP. The criteria principle would be set out in the Treaty establishing the European Community (Article 109j), but the quantified elements are laid down by two interpretive protocols only (Nos 5 and 6). Unlike the Treaty, the protocols may be amended by the Council of Ministers, but only by a unanimous decision.

The Maastricht European Council agreed that the prerequisite for Member States to accede to EMU would depend not only on technical criteria but also on political criteria, with trends being taken into consideration. The decision to allow a Member State to accede to EMU would be taken by a qualified majority in the Council but at the level of Heads of State or Government.

With regard to the hostile countries, their commitment to the third stage of EMU was subject to a referendum in Denmark (Protocol No 12) and to a subsequent change in stance in the United Kingdom (Protocol No 11).