'Euro and economic reality collide' from The Guardian (23 September 1996)

Caption: On 23 September 1996, the day after the meeting in Dublin of the Finance Ministers of the Member States of the European Union, the British daily newspaper The Guardian comments on the obstacles which the Fifteen may face in implementing Economic and Monetary Union (EMU).

Source: The Guardian. 23.09.1996. London.

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Euro and economic reality collide

Dublin EU finance ministers' meeting - Political commitment to a single currency is the easy part. Ian Trayor and Larry Elliott report on the practical difficulties

Werner Hoyer, Germany's key European Union official, was adamant yesterday that the most important decisions on the proposed single currency have been taken following the Dublin session of EU finance ministers which grappled with the minutiae of common fiscal policy.

But for most of those countries eager to sign up for monetary union, the political commitment is merely the easy part. From now on, they have to get their economies into shape and win over their voters.

Europe's sluggish economic performance during the 1990s has made hitting the Maastricht criteria for qualification for a single currency difficult to achieve: countries have to meet targets for inflation, interest rates, exchange rates, government deficits and state debt. In 1991, when the treaty was signed, seven countries met at least four out of five conditions, and three putative members — Finland, Sweden and Austria — would have qualified as well.

By 1995, only five countries — Germany, Luxembourg, France, Ireland and Denmark — were on course to fulfil four of the five conditions. What's more, the outlook for 1996 is for even fewer countries to make the grade.

The problem has not been inflation, which has remained subdued, but the impact of slow growth on budget deficits and, as interest payments mount up, on government debt. As a result, increasingly frantic attempts have been made to find ways of plugging the gaps.

France has tried a mixture of budget austerity, raiding the pension fund of France Telecom, and some highly optimistic forecasts of growth to ensure that it will be able to sign up when decision day comes in early 1998.

Belgium explains away the fact that its government debt is more than double the stipulated level by arguing that it has high domestic savings, so little of its debt has to be externally financed.

It is this sort of manoeuvre — and the hope that it will be deemed good enough if countries are simply moving in the right direction — that fuels the belief in Brussels that at least eight countries will be ready by 1999.

But it is not quite seen like that in Germany, where the debate will centre on the discrepancies between politics and economics, between Chancellor Helmut Kohl's government in Bonn and Hans Tietmeyer's Bundesbank in Frankfurt.

The political push to launch EMU on schedule in 1999 has gathered an unstoppable head of steam. But economic reality keeps getting in the way.

'Germans are very sensitive to the issue of whether the euro could be unstable,' Mr Hoyer said yesterday.

The Germans are worried not so much about the EMU launch as about what happens afterwards. This was the reason for last year's proposal from Theo Waigel, the finance minister, for a euro stability pact governing fiscal propriety after 1999.

The stability pact's nuances dominated the Dublin session. But as at last week's meeting of Franco-German finance officials, there was no agreement on the details.

In the interests of Bundesbank rigour, the Germans want automatic fines within six months for members whose budget deficits exceed 3 per cent of gross domestic product (GDP) once EMU is launched. The fines, initially non-interest bearing deposits with the European Central Bank, would be hefty, from 0.2 to 0.5 per cent of GDP.

While wannabe EMU members pay lip-service to the merits of the German proposal, the stability pact details are being diluted.

It now looks as though there will be no 'automaticity' in levelling the fines, that the European Commission and national governments will have a say. In other words, the decision to fine fiscal delinquents will be as much political as economic.