

The Economic and Monetary Union



Part 2: Legal Basis, Institutions

§ TREATIES OF ROME → no explicitly creation of European currency/monetary union - But: idea of "four freedoms" (unrestricted movement of goods, services, capital and labour) implicating common monetary system

70s: "**European Common Margins Agreement**" / 80s: "**Exchange rate mechanism of European Monetary System**"

→ Informal agreements between member states to keep exchange rates low

§ MAASTRICHT TREATY

completion of the EMU = legal objective → Delors report ("Three stages") formally accepted

→ sets a number of economic convergence criteria: inflation rate, public finances, interest rates and exchange rate stability (basis: TITLE 5 EC TREATY: "Economic and Monetary Policy") → Criteria for membership,

Organization, Institutions, Goals

→ Valid for all member states → **Exceptions:** UK & Denmark (legal opt-out), Sweden

EUROPEAN CENTRAL BANK (ECB) (forerunner 2nd stage: **European Monetary Institute (EMI)**)¹

→ established on 1 June 1998 / European institution with legal personality (Article 107(2) EC) / based in Frankfurt Main

→ issue of banknotes within the Community (notes given out by itself or the national central bank

→ collects (assisted by the national central banks) statistical information either from the national authorities responsible or directly

from economic agents

→ consulted on any proposed Community act in its fields of competence

→ may perform specific tasks concerning policies relating to the supervision of credit institutions and other financial institutions

but: authorities in the Member States continue to oversee the banking system,

→ arrangements to integrate the central banks of new Member States into ESCB

EUROPEAN SYSTEM OF CENTRAL BANKS (ESCB) (→ **ECB and the national central banks of all EU Member States**)

- defining and implementing the MONETARY POLICIES

- setting interest rates & exchange market operations

- holding and managing the official foreign reserves of the Member States;

- promoting the smooth operation of payment systems;

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EUROSYSTEM

- holding and managing the official foreign reserves of the Member

States;

→ ECB & national banks of Euro countries

- promoting the smooth operation of payment

systems;

EUROGROUP

→ Informal advisory body; Euro countries` ministers of economics & finance

¹ tasks → strengthen cooperation between the national central banks & MS` monetary policies; prepare the instruments and the procedures necessary for single monetary policy; promote efficiency of cross-border payments

DECISION MAKING BODIES ECB

→ Three separate, but closely linked & overlapping decision making bodies

Executive Board → **ECB president, vice president, → four other members (“EU-representatives”)**

- implementing policy by issuing instructions to national central banks

- managing day to day business & directing professional administrative staff of ECB

Governing Council → **All central bank governors of Euro-states**

- formulating substance of monetary policy

- setting key interest rates (determining at what rate commercial banks can borrow money from national central banks)

General Council → **ECB president, vice president, States of Governing Council, Central Bank governors of non-Euro states**