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Structural causes of the crisis of the Economic and Monetary union of the European Union

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I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended bibliography.

Plzeň, April 2013 ……………………

I would like to thank PhDr. Petr Jurek from the Department of Political Science and International Relations for supervising my thesis and for valuable commentaries he provided during the process.

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1 Introduction

The European Union is currently facing one of the toughest times in its history. Its common currency, the euro, is in danger. There are numerous important decisions for the EU leaders to make which will then determine the future of the Union and its processes. The euro has been failing to appear as the one aspect everyone would be counting on. It commenced to weak in its role of a unifier, especially after the rejection of the European Constitutional Treaty by the French and Dutch in 2005 and after the refusal towards the Lisbon Treaty by the Irish in 2008. *"The euro continued to lack the protective political umbrella of a sovereign European political power. This deficit in political union meant continuing weaknesses and vulnerabilities in capacity for international representation of common interests, for fiscal action through a collective budget, and for prevention and management of potentially contagious cross-national banking and financial crises"* (Dyson 2008: 2).

The hypothesis of the text is: the creation of the monetary union is an indivisible part of the European integration. The goal of my Bachelor thesis is to answer the question: Is it the improper setup or non-compliance of the rules that stands behind the current problems of the Economic and Monetary Union?

The thesis will be divided into four main units that will be put in a logical order. They will be titled as follows: 'The origins of the economic cooperation', 'The creation of the Economic and Monetary Union', 'What makes the Economic and Monetary Union' and 'The Economic and Monetary Union after the emergence of the crisis'. Each of these chapters will be further split into several shorter sections that will focus on particular issues.

In the first chapter, I will briefly introduce the initial projects that led to the monetary union. I will include key issues and problems and estimated risks. The very beginning of the Economic and Monetary Union of the EU (EMU) dates

back to 1973 when the Bretton Woods system collapsed. In response to this incident, the member states of the European Economic Community (EEC) established a monetary union based on the Werner's plan which, however, proved to be unsuccessful. The largest shift in the history of the monetary union was most probably the introduction of the Delors Plan and the European Monetary System (EMS) in 1979 which helped align economic policies. Later, this became the basis for the second attempt to create a monetary union.

In the second chapter, I will discuss further development and the creation of the EMU. Along with the economic and monetary integration in Europe, various mechanisms and procedures had evolved that helped shape the modern design of the Economic and Monetary Union. And so we come across the European currency unit (ECU) which preceded the euro and the Exchange Rate Mechanism (ERM) which created to achieve monetary stability and was subsequently replaced by ERM II. In 1991, the Maastricht Treaty was signed which constructed the concept and the schedule for the establishment of the economic and monetary union. The plan came into effect in 1999 when the member states (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) began to realize a common monetary policy and implemented the euro. Two years later, in 2002, Greece joined the Eurozone and the common currency was put into circulation in the form of notes and coins. By 2011, the euro area had been expanded to other countries (Cyprus, Estonia, Malta, Slovakia and Slovenia).

The third chapter will deal with the rules the Economic and Monetary Union was founded on, i.e. the institutions associated with the EMU and the rights and obligations of the Member States. The European Central Bank (ECB) is one of the most important institutions as it implements the monetary policy of all 17 member countries of the Eurozone. The ECB is, along with national central banks, part of the European System of Central Banks (ESCB) which plays a core

role in the EMU. One of the most notable rules should be emphasized – the convergence criteria an applying state must meet in order to be a part of the EMU. These are further confirmed in the Growth and Stability Pact that was founded so that the Member States, even as a part of the Eurozone, continue to fulfil the criteria.

In the fourth chapter, I will focus on the fact that many of the rules and institutions have been found unsatisfactory or insufficient. In the second part of this chapter, I will shortly describe the steps the European Union has taken in order to correct such deficiencies in the form of modified or brand new mechanisms and institutions.

In the conclusion, I will link the arguments from the previous four chapters, I will examine the implications of the problematic passages in the initial negotiations and feared risks of the monetary union, its current settings and how it actually worked so far.

The issue of the monetary union has been discussed in many books and articles. However, the flow of the current crisis changes on a daily basis and therefore every piece of literature becomes immediately inaccurate. For my thesis I have chosen many books, three of which I will be utilize the most, and several articles I will draw on, additionally I will be using the Internet sources, especially the official web sites of the European Union and the European Central Bank. Throughout the whole thesis I will be primarily working with the book *Policy-Making in the European Union* edited by Mark Pollack, Helen Wallace and William Wallace, in particular with the chapter Economic and Monetary Union written by Kathleen McNamara. Another major book I will be using is *The Euro: Its Origins, Development and Prospects* by Chris Mulhearn and Howard Vane. The third book that will be applied in the text is *Financial and Economic Crisis:*

Causes, Consequences and the Future edited by Lubor Lacina, Petr Rozmahel and Antonin Rusek.

When writing my thesis I will be using the methods of the scientific research. In this case I have selected a case study analysis to be the main method. That is, as researcher Robert K. Yin defines it, "[…] *research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used* (Yin 1984: 23). Component methods are analysis, synthesis, historical methods (historiography and historical analysis) and the interpretative and descriptive methods.

2 The origins of the economic cooperation

2.1 The very beginnings of the idea of an economic and monetary union

The very first thought of a common currency appeared well before the Second World War when at the gathering of the League of Nations in 1929 Gustav Stressemann, German minister of foreign affairs at the time, suggested that a European currency should be set up as the economic division grew due to the Versailles Treaty and establishment of many new nation states.[1]

The first negotiation about a change of the world's monetary system was held in the United States in 1944, a year before the Second World War ended. As a result, the Bretton Woods Agreements were signed. More than forty states from all over the world took part in the conference with the goal to restructure international financial and monetary relations. Consequently, the International Bank for Reconstruction and Development (IBRD) which today is a part of the World Bank (WB), and the International Monetary Fund (IMF) were founded. The gold standard monetary system was also introduced with the Bretton Woods Agreements. This system was based on gold which became the standard economic means of measure. It then provided stable exchange rates, although only the United States dollar could be converted into gold and the currencies of other countries were accordingly dependable on the US dollar. This system guaranteed the growth of interest in the dollar which then stabilized its status in the post-war world. This system brought all participating states the guarantee of monetary stability. It was after the break-up of the Bretton-Woods system when the European states started to seriously discuss the question of monetary integration[2].

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[1] History of the EMU, available at: http://ec.europa.eu/economy_finance/emu_history/part_a.htm, 23. 2. 2013.

[2] History of the EMU, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/introducing_euro_practical_aspects/l25007_en.htm, 23. 2. 2013.

The idea of a European economic and monetary union itself dates back to the Treaty of Rome from 1957 that gave birth to the European Economic Community (EEC), later also known as the Common Market. The EEC was established to carry out economic integration among its six founding members, i.e. Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. The main purpose of the organization was to found a customs union and to eliminate the impediments that were in the way of doing so. The Member States also intended to harmonize their economic policies, foster economic development in the euro area and enhance standards of living. The main pillar was a customs union that was to be established first and that allowed free movement of goods, services, people and capital. The measures were supposed to be accommodated by the European Commission, whereas the policies themselves would remain in the competence of the Member States.[3]

In 1965, some of the bodies of the European Economic Community were merged together with bodies of the European Coal and Steel Community (ECSC)[4] and the European Atomic Energy Community (EURATOM)[5] on the basis of the Merger Treaty, or Treaty of Brussels. A new term, the European Communities appeared.

Towards the end of the 60's problems started to occur within the Bretton Woods system when the United States began to apply a more expansionary monetary policy due to their difficulties with unemployment and cumulative deficit. Other countries did not appreciate such turnout as it was vital that the

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[3] Summary of the Treaty of Rome, available at: http://ec.europa.eu/economy_finance/emu_history/history/part_a_1_a.htm, 23. 2. 2013

[4] More information about ECSC available at: http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm.

[5] More information about EURATOM available at: http://www.euroskop.cz/gallery/2/757-smlouva_o_euratom.pdf.

monetary policy stays unanimous. By December 1971 the US dollar was devaluated in order to preserve the fixed exchange rate. However, the situation continued to worsen until the Bretton Woods system collapsed in 1973 and the convertibility of USD for gold was officially abolished by the American president Richard Nixon (Klein 1998: 4).

2.2 The Werner Plan

At that time, the EC had already completed its most important target which was the customs union. A few years before the Bretton Woods system went down, it was clear that some action in the area of monetary problematic was needed. In 1969 there was a summit of the Heads of State and Government held in The Hague. There it was decided to take up on a new goal within the European Communities: Economic and Monetary Union (EMU). A group of politicians, lead by Pierre Werner, the Prime Minister of Luxembourg, was subsequently asked to outline how such plan could be fulfilled by the year 1980 (Verdun 2005: 2-3).

The Werner Plan was introduced in October 1970 drawing up the way towards the EMU. It was a compromise between the two approaches of monetarists and economists. The monetarists sought a fast adoption of a common currency in belief that it would positively affect the convergence of the economies of the Member States. This concept found its supporters mainly in France, Belgium, Luxembourg, Great Britain, as well as the Commission itself. The strategy of economists was different mainly in the idea that the common currency should be implemented at the final stage of the whole process. They were of that opinion that such move would be a confirmation of the achieved economic convergence. This theory was popular in the countries of Germany and the Netherlands and later joined by Italy. (Verdun 2005: 2-3).

The concept of the Werner Plan was divided into several phases that would be rounded off with the launch of a common currency in 1980.[6] "*It recommended the development of the European Currency Unit (ECU), a centralized European credit policy, a unified capital market policy, a common policy on government budgeting and the gradual narrowing of exchange-rate fluctuations*" (Kondonassis – Malliaris 1994: 293). According to the Plan a system of mutually bounded European exchange rates was to be established and linked to the US dollar. Such system was called the "*snake-in-the-tunnel*". In 1973 the European Monetary Cooperation Fund was established to supervise the mechanism.[7] Such adjustment was later modified and even a few states left the arrangement as they were not able to restrain to the range (Kondonassis – Malliaris 1994: 293).

Eventually, the Plan failed, primarily because of the oil crisis that fully took on in 1973 and the different interests among the Member State and their views on the continuation of the monetary cooperation (Klein 1998: 5). "*What is truly remarkable about this period, and what makes these crossroads interesting for tracing the creation of EMU, is that the type of EMU conceptualized at this stage was remarkably similar to what would be re-invented in the late 1980s. One can almost say that the circumstances were not yet right, but the plan itself was starting to materialize*" (Verdun 2005: 3). Although as far as the economic union is concerned the rules there were much stiffer and more accurate.

2.3 The European Monetary System (EMS)

Even though the previous attempts were not successful it was obvious that the European Communities intended to continue further in its integration and

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[6] History of the EMU, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/introducing_euro_practical_aspects/l25007_en.htm, 23. 2. 2013.

[7] The historical development of monetary integration, available at: http://www.europarl.europa.eu/factsheets/5_1_0_en.htm, 23. 2. 2013.

create a common market. As the US dollar was not a stable currency anymore and it was not possible to convert it into gold, the EC was highly motivated to build up a new stage of monetary cooperation. A new suggestion for such was brought up by the new Commission President Roy Jenkins during his speech at the European Institute in Florence in 1977. The project was supported primarily by the French – German alliance with the lead of the French president Giscard d'Estaign and the German chancellor Helmut Schmidt. With the cooperation with the European Commission, a new plan was brought forth – the European Monetary System. The final version of the plan was accepted at the summit of the European Council in Brussels at the end of 1978 and came into force in March 1979. Except for Italy and the United Kingdom (that joined the EC in 1973 along with Denmark and Ireland) all Member States became a part of the EMS (Kondonassis – Malliaris 1994: 294).

The main goal of the EMS were firstly, to establish monetary stability in Europe and secondly, to facilitate a stable environment for the trade to grow. To accomplish such objectives, three tools were constructed: the ECU (that recovered from the Werner Plan), the Exchange Rate Mechanism (ERM) and a credit mechanism (Brůžek 2001: 52).

The ECU was endorsed by the European Communities Council of Ministers in 1978. It is a so-called "basket" currency that contains all the national currencies of the Member States. The share of the currencies in the "basket" was based on economic strength of each country which was given by the volume of Gross National Product and the level of intra-regional trade. Every five years there was supposed to be a revision that would also include new currencies (the Greek drachma in 1984 and the Spanish peseta in 1989).

The artificial currency ECU was playing three roles within the European Monetary System. First, it served as a reserve currency that would settle claims

and liabilities caused by the central banks of the Member States and their interference policies. Second, it was to express central parities of the national currencies within the System. Third, the ECU was used as the structural element of the divergence indicator (a tool that was meant to signal deflection of the rate from the central parity)[8].

The Exchange Rate Mechanism was "*a tool for exchange rate stabilization and for encouraging convergence of economic and monetary policies*" (Kondonassis - Malliaris 1994: 294). All currencies were set to fluctuate on the same level (± 2,25 %) except for the Italian lira, later joined by the British pound, Spanish peseta and Portuguese escudo that were allowed to have a higher fluctuation (± 6 %).

For the Mechanism to function smoothly, a set of credit tools was inducted. The central bank of any Member State could that way borrow money from another central bank when it did not have enough of its own foreign exchange resources. The European Monetary Cooperation Fund (EMCF) coordinated the whole process[9].

The Member States settled that it was the most vital to control and reduce inflation. Only then the main goal of the EMS was to be accomplished. *The EMS was a radical new departure because exchange rates could only be changed by mutual agreement of participating Member States and the Commission — an unprecedented transfer of monetary autonomy* (European Commission 2007: 6).

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[8] Explanation of the term European Currency Unit, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/vyklad_slovnik.html?PG=E#Evropská měnová jednotka, 27. 2. 2013.

[9] Explanation of the term Exchange Rate Mechanism, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/vyklad_slovnik.html?PG=M#Mechanismus měnových kurzů, 27.2. 2013.

3 The creation of the Economic and Monetary Union

The European Parliament started to negotiate a deeper integration within Europe. In 1984, it endorsed a proposal to a pact about the European Union that suggested that the Union would become a supra-national organisation with different levels of integration depending on the field in question[10].

Later in the process, as a part of continuing integration, the representatives of the Member States decided to renew the idea of a common market which was then confirmed in the Single European Act in 1986. The goal of the pact was to pursue the four liberties within the area of the European Communities – free movement of labour, goods, services and capital. Although the leaders came into a conclusion that a common currency was necessary for complete liberalization of the market and so they came with the notion of the European Monetary Union (EMU) with the thought of eventually adopting a common currency (Trichet 2007: 64). *"The Single European Act was another step in the march toward European economic integration, which began with the Treaty of Rome in 1957,"* (Klein 1998: 4).

With the Single European Act, the Member States promised to eliminate all the remaining obstacles to the free movement of goods, capital and persons among the states by the year of 1993. The particular decisions were to be made by the Council of Ministers with its qualified majority. The Single European Act strengthened the competences of the European Parliament, as the Council was forced to take into account the position of the EP[11].

[10] The European integration in the 80's, available at: https://www.euroskop.cz/8888/sekce/80-leta/, 12.3.2013.

[11] The European integration in the 80's, available at: https://www.euroskop.cz/8888/sekce/80-leta/, 12.3.2013.

3.1 The Delors Report

As the Single European Act stated that the Member States would deepen their common policies, another problem for the Communities arose - where to get the resources to finance those policies. For such reason, in June 1988 the European Council established a committee embodied by then the President of the Commission, Jacques Delors, along with the governors of central banks of the European Communities. "*Their unanimous report, submitted in April 1989, defined the monetary union objective as a complete liberalisation of capital movements, full integration of financial markets, irreversible convertibility of currencies, irrevocable fixing of exchange rates and the possible replacement of national currencies with a single currency,"* (European Commission 2007: 7).

The findings made by the committee are commonly known as the Delors Report, as such it was introduced in April 1989. The Report presented three stages on the way to the Economic and Monetary Union to be made.

The European Council decided that the first stage would be launched from the beginning of June 1990. From that moment on, all restrictions towards the movement of capital would be lifted (Trichet 2007: 65). Next steps within the first stage were the completion of the internal market and the start of a closer cooperation of the national economic and monetary policies of the Member States. "*Closer coordination of monetary policies across the Community was to be achieved through increased cooperation between the central banks via the Committee of Governors of the Central Banks of the member states, with the aim of achieving price stability,"* (Mulhearn – Vane 2009: 56). This stage was to be finished in 1994 (European Commission 2007: 7).

The Delors Report then suggested that within the second stage of the road towards the Economic and Monetary Union the European Monetary Institute (EMI) would be established and it was tasked to reinforce the cooperation

among the central banks of the Member States and later prepare the European System of Central Banks (ESCB). The purpose of the ESCB was to *"plan the transition to the euro. Define the future governance of the euro area. Achieve economic convergence between the Member States".* The second stage was scheduled from 1994 to 1999 (European Commission 2007: 7).

The third and final stage of the Report proposed the actual creation of a monetary union. That was to be achieved by fixing the exchange rates of the national currencies which then would be switched for a common currency, the euro. In this phase, the ESCB was to take over the common monetary policy within the euro area. The common monetary policy would feature for example a single interest rate, as opposed to different national interest rates. According to the Report, the ESCB would function without any influence from neither, the national governments nor the EC institutions. It would only answer to the European Parliament on the level of the EU and the European Council on the level of states. To achieve complete monetary stability, the national budgets of the Member States were to be restrained (Mulhearn – Vane 2009: 57). This stage was to start in 1999 and would continue in the following years (European Commission 2007: 7).

Simultaneously, as it was obvious that the costs for the reforming of the structure would be getting higher and that the financial needs of the Communities in order to build up a single market multiplied, the EC diminished its spending on common agricultural policy and called for larger contributions from the Member States. Moreover, there was another considerable change within the management of the Communities – the Commission, thanks to the Delors Report, could play an active role in strategic planning[12].

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[12] The European integration in the 80's, available at: https://www.euroskop.cz/8888/sekce/80-leta/, 12.3.2013.

The European Council discussed the proposals made in the Delors Report at its meeting in Madrid in 1989. However, it became obvious that in order to pursue the plan, some changes in the Treaty of Rome from 1957 were necessary. Therefore, in December 1989 the Council came to a resolution that it would assemble again so that the modification process could start and called for an intergovernmental conference to be held in 1991 (Mulhearn – Vane 2009: 57 - 58).

At the same time, political changes have been occurring around the world which emphasised the necessity for a deeper integration in Europe, as well as it accelerated the process as a whole. After the decay of the Soviet Union, political leaders were brought before the question of a united Germany, thinking that a political union would represent a base and a complement to the monetary union (Trichet 2007: 65). They feared that Germany could gain power again and that the North Atlantic Treaty Organization (NATO), as a tool to fight against the USSR, would fall apart[13].

3.2 The Maastricht Treaty

The agreement over the Maastricht Treaty ended the intergovernmental conference in December 1991. It was then signed by the presidents or prime ministers of the Member States in February 1992, in Maastricht, the Netherlands. The Treaty did not deal only with economic and monetary questions. With the Maastricht Treaty, the now European Union also made a step towards a deeper political integration (Mulhearn – Vane 2009: 58).

As a result, the Treaty established a system, commonly known as the pillar structure of the European Union. The structure of the Union was now consisting of three pillars: the European Community pillar, the Common Foreign and

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[13] The European integration in the 90's, available at: https://www.euroskop.cz/8889/sekce/90-leta/, 13.3.2013.

Security Policy (CFSP) pillar, and the Justice and Home Affairs (JHA) pillar. The first pillar is somewhat supra-national, as it includes the Community institutions through which the Member States “hand over” their sovereignty. The European and Monetary Union falls within the fist pillar, as well. The other two pillars operate more on an intergovernmental level and counts on uniformity in the decision making processes. Whereas, the European institutions do not have much of a say in the continuance of those two pillars. The CFSP, being the second pillar, facilitates the possibility to act unanimously in the field of foreign policy and security. The JHA, the third pillar, provides security to the citizens of the European Union, as the governments, according to the pillar, take joint action in the field of justice[14].

The ratification process of the Maastricht Treaty was not as smooth as one might have expected. The people of Denmark refused the Treaty in the first round of their referendum in 1992. In France, although positive, the results were very close. Later, problems in Germany and the UK arose. It turned out that the citizens were not quite ready for such form of integration. Consequently, we can observe different pace of integration, depending on the given field[15].

In the same year as the Treaty was signed, several things happened that only confirmed the need for a single currency. A few of the national currencies were forced to leave the Exchange Rate Mechanism (British pound) while others had to be devaluated (Italian lira). Something like that would strongly affect the trade within the common market (Trichet 2007: 65).

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[14] Summary of the Maastricht Treaty, available at: http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_maastricht_en.htm, 13.3.2013.

[15] The European integration in the 90’s, available at: https://www.euroskop.cz/8889/sekce/90-leta/, 13.3.2013.

The Maastricht Treaty embraced the Delors Report and therefore adopted the Report's suggestion to move towards the Economic and Monetary Union in the three stages mentioned earlier.

The second stage was determined by the foundation of the European Monetary Institute, which would later become the European Central Bank (ECB). The ECB was to be established in the third stage. This phase would not be launched later than in the beginning of 1999. The greatest asset in the third stage was the start of a single currency, then not yet named. It was well established that the EU Member States had to meet certain criteria in order to be justified and entitled to joining the common currency area (Mulhearn – Vane 2009: 58).

3.3 The Economic and Monetary Union of the European Union (EMU)

The Economic and Monetary Union has its advantages, as well as disadvantages. The positive aspect is without a doubt the deepening of the single internal market. The creation of fixed exchange rates means savings connected with the conversion of one currency into another. The common currency then completely removes the need for exchanging currencies, thereby simplifies the situation for tourists and businessmen. Together with the American dollar and the Japanese yen, the euro would become another major international and reserve currency. A shortcoming might be the fear of losing national sovereignty, as with the joining the monetary union, countries forfeit the ability conduct their own monetary policy, therefore lose an important tool for influencing their economies (Brůžek 2001: 82).

Nevertheless, the support for the EMU among politicians remained quite intense and therefore, there was still the will to continue in the process. On the other hand, the general public was not as favourable towards the transition to the euro. The European citizens were worried that the costs of the convergence

would get too high. They also did not accept the idea of giving up national sovereignties in such scale (Klein 1998: 7 - 8).

A long period of stability was suddenly interrupted by powerful turmoil in the financial markets in 1992 and 1993. Such turnout of events made the British pound and the Italian lira leave the Exchange Rate Mechanism. Due to such progression, the ERM had to broaden the range of acceptable fluctuation from ± 2.25 % to ± 15 %. Consequently, the idea of ever creating a monetary union became unapproachable. There are three factors being associated with the negative market activity. First, the ERM lost its stability, second, high costs of the German unification, and third, the negative results of the referendum in Denmark that provoked doubts about formation of a monetary union. "*Unlike in the case of the Werner Plan, which was given up on in the seventies, under the burden of acute problems, a bitter lesson from the beginning of the nineties increased the determination to go in the way of the Maastricht Treaty. There was a conviction that only a monetary union would protect the internal market against destabilizing exchange rate speculation*,"[16].

As stated in the Maastricht Treaty, the second stage towards EMU started in 1994 and lasted until the implementation of the euro in 1999. In this period, in preparation for introducing the single currency, many activities were launched.

In the beginning of 1993, the single market and its free movement of capital, goods, services and persons started to operate[17]. In November the same year, the Treaty on the European Union comes into force[18].

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[16] Information about the turbulent period of 1992 – 1993, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/666.html, 15.3.2013.

[17] European integration history line, available at: http://europa.eu/about-eu/eu-history/1990-1999/index_cs.htm, 15.3.2013.

[18] Explanation of the Maastricht Treaty, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/euro_maastricht.html, 15.3.2013.

In 1994, the Economic and Monetary Institute began its functioning and started to harmonize the monetary policies and national currencies of the Member States. The EMI also commenced to deal with the circumstantialities and the form of the common currency.

With January 1995, three countries joined the European Union – Austria, Finland and Sweden, extending the number of Member States to fifteen[19].

At a meeting of the European Council in Madrid in 1995, the name of the single currency was negotiated, the leaders agreed on calling it the euro. It was also set that the actual transition to euro would come with the beginning of 1999. In 1996, the EMI introduced the appearance of the notes and coins.

As mentioned earlier, the Stability and Growth Pact was adopted in Amsterdam in 1997. It was to make sure that the Member States would keep their budgets under control, as well as according to the convergence criteria. Otherwise, they would face penalties. The European Commission was given the charge for the surveillance (European Commission 2007: 9). Also in 1997, the Member States signed the Amsterdam Treaty was to be only an amendment to the Maastricht Treaty and it was a way how to prepare for another European states joining the European Union. Therefore, it brought some changes into the European institutions[20].

In 1998, the governments of the Member States published reports with the results from 1997. It turned out that eleven countries met the criteria necessary for the entry to the EMU and were therefore authorized to join the monetary union at its very first phase. These countries were Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and

[19] European integration history line, available at: http://europa.eu/about-eu/eu-history/1990-1999/index_cs.htm, 15.3.2013.

[20] Treaties of the EU, available at: http://europa.eu/eu-law/treaties/index_cs.htm, 15.3.2013.

Spain. Greece, which also aimed to join with the first stage, did not meet the requirements. Denmark, Sweden and the UK chose not to enter the EMU at this phase (Klein 1998: 7 - 8).

In the same year, the European Monetary Institute was replaced by the European System of Central Banks and the European Central Bank. With the first January of 1999, the third phase of the journey towards the full Economic and Monetary Union began (European Commission 2007: 9).

3.3.1 Exchange Rate Mechanism II (ERM II)

The Exchange Rate Mechanism was carried out after an accord from 1998. It is a system that replaced the original Exchange Monetary System which became unsatisfactory with implementing the euro. Its goal is to sustain the stability of exchange rates among the euro and national currencies of individual Member States, so that there are not any major fluctuations in the single market[21].

The ERM II is according to the Treaty on European Union a mandatory intermediate step on the way towards accepting the euro. It requires that the exchange rates remain in the fluctuation margin of ± 15 %. Member States are obliged to participate in the ERM II for at least two years before actually implementing the euro. The parity is determined by ministers of finance, ECB, governors on national central banks and the European Commission[22]. Foreign exchange interventions are conducted mainly in the euro and in the national currencies of the states participating in the ERM II. The ECB and the national

[21] Explanation of the Exchange Rate Mechanism II, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25082_cs.htm, 16.3.2013.

[22] Explanation of the Exchange Rate Mechanism II and the Convergence Criteria, available at: http://www.cnb.cz/cs/menova_politika/zpravy_o_inflaci/2003/2003_cervenec/boxy_a_prilohy/mp_zpinflace_prilohy_c_03_cervenec_p1.html, 16.3.2013.

central banks of the states not involved in the euro area provide each other with the information concerning foreign exchange interventions[23].

On the other hand, "*the exchange rate regime is only one element in a set of economic policies and does not have an exclusive or a unique position. Whether the exchange rate regime stays sustainable and plays a stabilizing role depends primarily on if the other values and macroeconomic policies evolve in a balanced, sustainable and mutually consistent way*,"[24].

This settlement was many times changed, as new national banks kept joining the system. It has to change when a certain country accepts the euro as its currency, as well. The General Council of the European Central Bank supervises the processes of the ERM II and serves as a platform for coordination of the monetary policy[25].

3.3.2 The launch of the euro

As agreed, the last stage of the Economic and Monetary Union did start on the first day of January 1999. The first step was that the exchange rates of national currencies were irrevocably fixed in preparation for adopting the euro. However, it took another three years until the common currency was actually put into circulation. In the meantime, it only existed in a cashless form (Mulhearn – Vane 2009: 61). As there existed the "double-currency" system, all assets of the market had to get used to the new currency. "*For the financial*

[23] Explanation of the Exchange Rate Mechanism II, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25082_cs.htm, 16.3.2013.

[24] Explanation of the Exchange Rate Mechanism II and the Convergence Criteria, available at: http://www.cnb.cz/cs/menova_politika/zpravy_o_inflaci/2003/2003_cervenec/boxy_a_prilohy/mp_zpinflace_prilohy_c_03_cervenec_p1.html, 16.3.2013.

[25] Explanation of the Exchange Rate Mechanism II, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25082_cs.htm, 16.3.2013.

markets, this transition happened immediately — the ground was well prepared and trading in financial markets was exclusively in euro. For administrations and business there was a longer transition period as they gradually switched their systems for accounting, pricing and payments over to the euro. For citizens the most visible part of the transition was the appearance of dual pricing on labels in shops and petrol stations, etc. This was part of an extensive publicity campaign to familiarise the general public with the euro and the coming introduction of banknotes and coins."

Simultaneously, the Eurosystem, consisting of the European Central Bank and the central banks of the Member States, became the main establishment to maintain the monetary policy of the euro area.

In 2000, on its second attempt, Greece finally met the convergence criteria and the Council came to a conclusion that the country is at last eligible to join the other eleven Member States in the euro area and is prepared to adopt the single currency. Hence, Greece joined in the beginning of 2001 (European Commission 2007: 10).

The actual banknotes and coins of the euro were for the first time presented in January 2002. For the period of two months, national currencies were gradually being taken out of the circulation and at the end of February 2002, the national currencies were, after a long planning, superseded by the common currency, the euro (Mulhearn – Vane 2009: 61).

This settlement was many times changed, as new national banks kept joining the system. It has to change when a certain country accepts the euro as its currency, as well. The General Council of the European Central Bank supervises

the processes of the ERM II and serves as a platform for coordination of the monetary policy[26].

3.4 Expanding the Eurozone

As mentioned above, there were eleven states that started to use the euro in 2002, plus Greece that met the convergence criteria two years later than the other Member States. The states that joined the European Union after 1992 are required to accept the euro, as well[27]. "*However, as they did not join the euro area immediately on accession, their official status until they adopt the single currency is 'Member States with a derogation'. This status is granted by the Act of Accession and obliges them to become full members of the euro area eventually*," (European Commission 2007: 13).

There were three waves of accession of new Member States – in 1995 (Austria, Finland and Sweden), in 2004 (the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) and in 2007 (Bulgaria and Romania). The new Member States that already implemented the euro are: Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009) and Estonia (2011). It is planned that Latvia and Romania will start using euro in 2014.

A new state automatically gains an opt-out upon accession and when it is ready to accept the euro it then asks for permission to join the Eurozone. After the discussion of the European Parliament and the Council, the ECOFIN makes the final decision. The Council, with help from the ECB, settles the exchange rate between the euro and the national currency. Each country individually prepares

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[26] Explanation of the Exchange Rate Mechanism II, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25082_cs.htm, 16.3.2013.

[27] Expanding the eurozone, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xls/euro_rozsir_eurozony.html, 18.3.2013.

the plan for the transition. It includes series of technical, organizational and legislative steps[28].

There are three scenarios for the "newcomers" on how to accept the single currency. The first one is called the Madrid scenario. In this case, a new Member State introduces the euro in its cashless form and after the transitional period that can take up to three years maximally, puts it into actual circulation. This method has its advantages and disadvantages. As a plus, it gives the country enough time for preparation. On the other hand, it can become very costly, as it is necessary to keep double bookkeeping, two systems of payment transactions, etc. The Madrid scenario was used with the first wave of states implementing the euro. The second scenario is referred to as the Big Bang scenario. According to this method, the country applies the single currency in both, cashless and cash payments in one moment. The Big Bang scenario is time demanding as it is arduous to prepare. However, it proved to be much cheaper than the Madrid method. The first state that decided to use this scenario was Slovenia in 2007. The third process is called Phasing Out, meaning that the country accepts the single currency without any transitional period but it is possible to still use the national currency for up to one year after introducing the euro[29].

[28] Expanding the Eurozone, available at:
http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/euro_rozsir_eurozony.html, 18.3.2013.

[29] The scenarios for the adoption of the euro, available at:
http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/euro_scenar_prijeti.html, 18.3.2013.

4 What makes the Economic and Monetary Union

In order for the Economic and Monetary Union to function well, a greatly thought-through structure of the system was an absolute necessity. All the institutions and processes did not spring into existence at one point and all at once but they were founded as time went by and were developing into the setup of the EMU as we know it today.

4.1 Institutions

The main asset to the Economic and Monetary Union is the European System of Central Banks (ESCB) that includes all national central banks of the Member States and is led by the European Central Bank (ECB). The ESCB also involves the countries that are not a part of the Eurozone and have not yet implement the euro, and those which do not intend to do so. However, such states are not fully enrolled in the monetary policy as the participants of the euro area are, and they carry out their own one. Furthermore, non-participating states do not have any say in the decision-making process, as far as the monetary policy of the euro area is concerned (McNamara 2005: 149).

4.1.1 European Central Bank (ECB)

The European Central Bank was established in July 1998 and was a substitution to the European Monetary Institute. It is an institution that is completely independent. Even though it is considered to be a part of the structure of the European Union, it runs on separately and it does not answer to any of the European Union institutions. Nor does it depend on the national governments or the national central banks[30]. It is stated, according to the Article 130 of the Treaty on the Functioning of the European Union, that "*neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies,*

[30] Explanation of the term European Central Bank, available at: https://www.euroskop.cz/82/sekce/evropska-centralni-banka/, 28.3.2013.

offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks" (European Commission 2009: 83).

The independence of the ECB is fourfold, as it has four different dimensions it reaches to. First, the ECB is independent financially as its budget is strictly separated from the budgets of the rest of the EU institutions. The European Central Bank is the only EU institution the Member States, in this case the euro area participants only, are allowed to capitalize directly. Second, the ECB is independent on a personal level, as the Union tries hard to make sure that the functionaries of the ECB are not politically influenced. That is why there are long mandates instituted, as well as it is not possible to re-elect some of the members of its management. Third, the independence of the European Central Bank stretches to yet another level, an institutional one. The ECB does not take the interests of individual countries or institutions of the European Union into consideration and it must act autonomously. Finally, the ECB pursues the independence of instruments which is manifested by the fact that the Bank can take use of any market-based tools that are necessary for implementation of the monetary policy[31].

The very fundamental task of the ECB, and by extension of the ESCB, is the formation and realisation of the monetary policy for the euro area. It does so mainly via regulation of the interest rates, exchange market operations, and it benefits from the possession of the official reserves. The monetary policy implementation itself is then executed by the individual national central banks.

[31] The structure of the European Central Bank, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/euro_organizace_ecb.html, 28.3.2013.

It is established that the European Central Bank plays a crucial role in the event of crisis within the euro area, and is the provider of financial help. On the other hand, the ECB does not have the "*ultimate responsibility for stability of the European financial system, and issuing system-wide debt instruments. The ECB is also barred from creating and EU-level financial instrument to finance EU expenditures*," (McNamara 2005: 149).

The main bodies of the European Central Bank which participate in the decision-making process are: the Executive Board, the Governing Council, the President and the General Council. The Executive Board is composed by the President of the Bank, the vice-president and four other members. Their mandates are for eight years and it is not possible to be re-elected. The Executive Board is appointed by the members of the governments of the Member States, on the basis of recommendations made by the Council and after a discussion with the European Parliament and the Governing Council. It is possible only for a citizen of one of the Member States to become a member of the Executive Board. As far as its agenda is concerned, the Executive Board employs itself with daily agenda and it annually prepares financial statements of the European System of Central Banks.

The Governing Council is the body of the European Central Bank where the largest portion of the decision-making process takes place. It consists of the President of the ECB, the vice-president and the governors of the national central banks of the states that are participating in the euro area. This body is the only one that is able to allow issuing of the banknotes in the European Union. It comes in on collecting statistical information, on the reports about the ESCB and the monetary policy. It also helps to create the rules for the national central banks and it ratifies the financial statements of the ESCB prepared by the Executive Board of the ECB. The Governing Council comes together at least

ten times a year[32]. "*Following an evaluation of its monetary policy strategy, the Governing Council declared that 'in the pursuit of price stability it aims to maintain inflation rates below but close to 2% over the medium term'*", (Mulhearn – Vane 2008: 93).

The President of the European Central Bank chairs the Governing Council, the Executive Board and the General Council[33]. "*The job of the President of the ECB has triggered some contentious political struggles between member governments wishing to ensure that this highly visible position is filled according to their national interest, and informed by the appropriate mind set*," (McNamara 2005: 150).

Members of the General Council are, except for the President and the vice-president of the ECB, the governors of the national central banks from the whole European Union, no matter whether the state adopted the euro or not. This body is responsible for the Member States that have not yet implemented the euro but are in that direction, and so it is in charge of monitoring the situation in the connection with the Exchange Rate Mechanism. It also interfaces the monetary policy in those countries[34].

The credibility of the ECB is related to the ability of achieving the objectives that were set. Trust-building is a long process but it is crucial for successful functioning of the euro area. An important part of credibility is also a high level

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[32] Explanation of the term European Central Bank, available at: https://www.euroskop.cz/82/sekce/evropska-centralni-banka/, 28.3.2013.

[33] Explanation of the term European Central Bank, available at: https://www.euroskop.cz/82/sekce/evropska-centralni-banka/, 28.3.2013.

[34] The institutions of the Economic and Monetary Union, available at: http://circa.europa.eu/irc/opoce/fact_sheets/info/data/economic/institutions/article_7228_en.htm, 28.3.2013.

of transparency and predictability of monetary policy actions. It is a positive asset that the ECB is highly independent from any political pressure[35].

4.1.2 The European System of Central Banks (ESCB)

The European System of Central Banks was founded, as well as the European Central Bank, as a part of the final stage of the Economic and Monetary Union. It exists since the beginning of 1999. However, it does not have its own bodies and it is controlled by the authorities of the ECB. The main one is, in this case, the General Council. Together with the ECB and with the national central banks, it is called the Eurosystem.

The System is based on important principles, such as securing the price stability, pursuing the fundamental economic policy of the European Union or the monetary policy indivisibility. The task of the ESCB is to set the direction of the monetary policy of the whole EU, to preside to the foreign exchange trades and to administer the reserves of the states included, to put forth a non-problematic functioning of payment systems, and to participate in programmes intended for the stability of the financial system[36].

The Eurosystem plays the role of a monetary authority within the frame of the European Union, as well as outside the organization. In accordance with further monetary and fiscal development, it takes and pursues appropriate measures. The main task of the Eurosystem is to secure the stability of financial situation and to endorse further financial unification within the European Union. It is important that the Eurosystem answers to the interest of the European citizens, as well as the needs of the market. "*The Eurosystem attaches utmost importance to credibility, trust, transparency and accountability. It is committed*

[35] The structure of the European Central Bank, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/euro_organizace_ecb.html, 28.3.2013.

[36] Explanation of the term European Central Bank, available at: https://www.euroskop.cz/82/sekce/evropska-centralni-banka/, 28.3.2013.

to conducting its relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence." The Eurosystem also counts on the willingness of each Member State and on their aspiration to build a well working organization. It aims for well designed structure and effective methods that will help towards fulfilling up to the agreement[37].

There are several committees that take care of various areas within the frame of the European System of Central Banks. These committees help with the functioning and the decision-making of the bodies of the Eurosystem, being the main sources of information[38].

The individual national central banks, as part of the European System of Central Banks, can as well pursue their own goals that are not connected with the Eurosystem. Nevertheless, these goals and strategies cannot be at variance with what the Eurosystem is aiming for, consequently with the regulation of the Governing Council.[39] This means that apart from their own tasks, the national central banks are obliged to carry out the policies and duties of the Eurosystem. These consist of: management of foreign reserves of the European Central Bank, release and distribution of the euro along with the ECB, or providing data to the ECB.[40]

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[37] Strategic intents of the Eurosystem, available at: https://www.ecb.int/ecb/orga/escb/html/intents.cs.html, 2.4.2013.

[38] Eurosystem/ESCB Committees, available at: http://www.ecb.int/ecb/educational/facts/orga/html/or_019.en.html, 2.4.2013.

[39] The national central banks as part of the Eurosystem, available at: http://www.ecb.int/ecb/educational/facts/orga/html/or_003.en.html, 2.4.2013.

[40] Tasks of the national central banks, available at: http://www.ecb.int/ecb/educational/facts/orga/html/or_014.en.html, 2.4.2013.

4.1.3 The Economic and Financial Affairs Council (ECOFIN)

The ECOFIN Council is not exactly a part of the Economic and Monetary Union but it is a substantial part in implementing of its policies. The ECOFIN Council is a component of the Council and consists of Member States' ministers of finance.

It coordinates the economic policy of the whole European Union, controls the economic and budgetary situation in the Member States, as well as the public finances. The ECOFIN also monitors financial markets and transfers of capital and it surveillances economic ties with other countries outside the European Union.

The ECOFIN makes decisions in cooperation with the European Parliament. Together, they annually prepare the budget for the Union[41]. While the European Central Bank is in charge of the monetary policy within the euro area, when it comes to the area outside the Eurozone and the exchange rate policy, the ECB shares its liability with the European Union Council of Economics and Finance Ministers (ECOFIN). *"According to the Maastricht Treaty, ECOFIN has the authority to: (i) conclude formal agreements on an exchange rate system for the euro with non-Community currencies and (ii) formulate 'general orientations for exchange-rate policy' of the euro area (in exceptional circumstances, such as the case of a clear misalignment), as long as such arrangements do not impede the ECB's primary objective of maintaining price stability,"* (Mulhearn – Vane 2008: 95-96).

4.1.4 The Eurogroup

The Eurogroup comprises of all the Member States. It is an informal gathering and it meets always before the ECOFIN Council gets together, hence once a

[41] Information about the ECOFIN Council, available at: http://www.consilium.europa.eu/policies/council-configurations/economic-and-financial-affairs.aspx, 3.4.2013.

month. It negotiates over the topics that will be later discussed at the ECOFIN's session. These topics usually consist of well functioning of the Eurozone and the Economic and Monetary Union itself[42].

4.2 Processes

It is not only the institutions that play a considerable role in the running of the Economic and Monetary Union, and by extension of the whole European Union. A significant part of the functioning is formed by procedures that take their course between the Member States and the institutions of the EMU. Apart from the Exchange Rate Mechanism II and the Convergence Criteria mentioned above, there are a few more macroeconomic policies that influence and help to keep the continuance of the EMU.

4.2.1 The Convergence Criteria

"The Maastricht convergence criteria were designed to ensure that a Member State's economy was sufficiently prepared for the adoption of the single currency. They provided a common baseline for the stability, soundness and sustainability of public finances for euro area candidates that reflected economic policy convergence and a resilience to economic shocks. The exchange rate criterion was intended to show that a Member State could manage its economy without recourse to currency depreciation," (European Commission 2007: 8).

The convergence criteria were necessary as the national economies of the Member States needed to be on a similar level of performance. Along with this aspect, it was required that each of the economies accepts common monetary policy, meaning that they implement homologous interest rate. Only then it was possible to carry out the single currency. Therefore, this way, it was plausible to

[42] Institutions of the Economic and Monetary Union, available at: http://circa.europa.eu/irc/opoce/fact_sheets/info/data/economic/institutions/article_7228_en.htm, 28.3.2013.

differentiate the suitable candidates for the third stage from the unfitted ones (Mulhearn – Vane 2009: 58 - 59).

It was decided that, as such, the criteria had to be met by the Member States by the end of 1996. If that would not happen, the European Union leaders would then determine which states are or are not capable of introducing the final stage.

As it was set in the Treaty, two of the countries were excluded from the commitment of proceeding to the third stage. The United Kingdom and the Kingdom of Denmark did not want to adopt a common currency. If that situation is to change, approval from the Parliament and the government would be needed in the UK, and a referendum would have to be held in Denmark (Kondonassis – Malliaris 1994: 111).

Altogether, there were four criteria laid out in the agreement. The first one is sustainable price stability. In order to assure whether a Member State satisfies this condition, the Council examines the inflation rate of that state for the period of one year. During this time, the inflation rate must not surpass the one of three most efficient Member States by more than 1.5 %[43]. "*Convergence of inflation rates provides evidence that countries, who wish to join the single currency are committed to inflation control and accept that low inflation rates are both desirable and necessary. As such the inflation criterion avoids the potential of inflation bias in a currency union,"* (Mulhearn – Vane 2009: 59).

The second criterion is to have sustainable government finances. This means that the government debt cannot be more than 60 %. At the same time, the

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[43] Information about the convergence criteria, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/ec0013_en.htm, 14.3.2013.

deficit cannot exceed 3 % of the country's GDP[44]. "*Convergence of debt-to-GDP ratios reduces the risk of surprise inflation. The higher the debt-to-GDP ratio, the greater is the incentive for a government to engineer a 'surprise' inflation in order to reduce the real value of its outstanding debt. Convergence of budget deficits reduces the risk of default. As a government deficit increases, a country faces a higher default risk."* Later, in 1997, the Stability and Growth Pact was adopted that states that if any country does not meet this requirement, it must undergo some punishments (Mulhearn – Vane 2009: 59).

The third condition is that each Member State, except for the UK and Denmark, as discussed earlier, has to join the Exchange Rate Mechanism of the European Monetary System for two years. This requirement was set up so that Member States preserve an exchange rate without any excessive tensions[45]. *"Exchange rate convergence prevents countries, prior to entry, from devaluing their exchange rate in order to improve their competitive position,"* (Mulhearn – Vane 2009: 59 – 60).

The final criterion consists of the fact that the national long-term interest rate cannot be more than 2 % higher than the one of three countries with the lowest inflation[46]. "The convergence of long-term interest rates both guards against disruption in national capital markets when a country enters the final stage of EMU, and ensures that entrants are able to initially "live with" the single

[44] Information about the convergence criteria, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/ec0013_en.htm, 14.3.2013.

[45] Information about the convergence criteria, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/ec0013_en.htm, 14.3.2013.

[46] Information about the convergence criteria, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/ec0013_en.htm, 14.3.2013.

interest rate set for the whole euro area by the ECB," (Mulhearn – Vane 2009: 60).

As said in the Maastricht Treaty, once per two years minimally, if the Member State does not ask itself, the ECB, along with the Commission, evaluates the advancement of the candidate country and releases a report with its findings. On the basis of the report, and in accordance with the European Parliament and the candidate state's head of government or president, the ECOFIN Council decides whether the country is eligible to adopt the euro. It then settles the conversion rate for the replacement of the national currency by the euro[47].

4.2.2 Fiscal Rules

The fiscal rules of the Economic and Monetary Union were adopted so that problems of one Member State cannot affect the other ones and that all of them follow certain regulations in connection with their public finances. It is a fact that Member States manage their finances on their own, from the most part. However, it is important to comply with certain guidelines in order for the problems not to spread more deeply into the Union and the other Member States. These regulations are set up either in the Treaty or the Stability and Growth Pact (Verhelst 2011: 7-9).

According to the Treaty, if a state's budget deficit outreaches 3 % of GDP or its public debt outreaches 60 % of GDP the government of such country might be asked to repair the situation. There also may be sanctions and penalties imposed on the state if it does not correct the situation as required. The punishment graduates from a demand to put funds aside in a non-interest-bearing bank deposit, to non-reimbursable fines set as a proportion of GDP. The Treaty further specifies that no such sanctions will be required if the country

[47] Who can join and when, available at: http://ec.europa.eu/economy_finance/euro/adoption/who_can_join/index_en.htm, 14.3.2013.

finds itself in a major crisis. Such crisis is defined as a decline in GDP of at least 2 % in one year. If output of that country has decreased by an amount between 0.75 % and 2 %, the ECOFIN council will adjust the sanctions to the situation (McNamara 2005: 156).

The Treaty also contains a clause, commonly referred to as the "no bailout clause". According to this annex, it is basically stated that a Member States is accountable only to itself for its own debt. Other "*rules prohibit central bank credit facilities for Member States, direct sovereign debt purchasing by central banks, as well as privileged access to financial institutions for the EU or Member States*" (Verhelst 2011: 9-10).

4.2.3 The Broad Economic Policy Guidelines (BEPGs)

The Broad Economic Policy Guidelines are the main tool for helping with coordination of the economic policies of individual Member States. They are issued by the Council but are not presented as mandatory for the national governments. However, it is highly recommended to follow them as they come under the surveillance system of the Commission[48]. "*On the basis of its work, the Council can issue recommendations when it believes that a country's policies are contrary to the common European interest. The Commission has the power to issue warnings. The BEPGs, the Council recommendations and the Commission warnings are nevertheless not legally binding*," (Verhelst 2011: 10-11).

The macroeconomic policies for growth and employment assist towards: securing economic stability for sustainable growth, strengthening sustainable economic and fiscal viability, improving the effectiveness of public finances, ensuring that wage developments support economic growth and stability and

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[48] Information about the Broad Economic Policy Guidelines, available at: http://europa.eu/legislation_summaries/glossary/broad_ec_pol_guidelines_en.htm, 4.4.2013.

coordinating macroeconomic, structural and employment policies and increasing the influence and competitiveness of the euro area at the international level.

Within the scope of the Broad Economic Policy Guidelines, the Lisbon Treaty[49] introduced a few changes and added some amendments that now "*highlight the importance of knowledge and innovation as factors for competitiveness, growth and sustainable development. Member States and the Community should pursue an integrated approach to climate and energy policy with the aim of increasing the security of supply and the availability of affordable energy, and combating climate change*". They also state that it is desired the European Union as a whole will be more interesting for labourers and stakeholders from abroad[50].

4.2.4 Stability and Growth Pact (SGP)

As stated above, the Stability and Growth Pact was implemented in 1997. It was meant for the Member States to henceforth continue in keeping the Convergence Criteria. However, it was then in 2005 reformed and the restrictions and punishments were loosened. It was mainly after first Germany and then France did not pay attention to the warnings issued by the Commission and the ECOFIN Council saying they had not been keeping their deficits low as desired by the SGP (Ngai 2012: 15-18). According to the Pact, the public debt of the Member States cannot overpass 60 % and the deficit of the government is set not to be over 3 % (Verhelst 2011: 8).

The Stability and Growth Pact defines both, precautious and penalty arrangements. The precautious system requires that the Member States

[49] More information about the Lisbon Treaty available at: http://europa.eu/lisbon_treaty/index_en.htm.

[50] Summary of the Broad Economic Policy Guidelines, available at: http://europa.eu/legislation_summaries/economic_and_monetary_affairs/stability_and_growth_pact/ec0002_en.htm, 4.4.2013.

conduct their public finances in a close to balanced state or a state of surplus over the medium-term and commits them to keep from outreaching the limits on public deficits defined in the Maastricht Treaty. The precautious mechanism demands that the Eurozone states provide an annual stabilization programme and that the other countries submit a convergence programme. The programmes are a way how to inform the European Commission on arrangements set up to maintain or accomplish healthy public finances over the medium term. The Commission then analyses the programmes and prepares an evaluation. Based on this, the Council might then release a warning before the deficit becomes immoderate. A recommendation may be made by the Commission that the state adopts new fiscal policy measures (Lacina – Rozmahel – Rusek 2011: 64).

According to the sanction part of the agreement, after the Member State does not follow any warnings and further notifications on an excessive deficit made by the Council, it can pursue certain punishments. First, the Member State has to make a deposit of 0.2 % to 0.5 % of that country's GDP while the amount of the deposit depends on seriousness of the deficit. If the Member State resumes back to the standard situation the forfeit is refunded. On the other hand, if the undesired situation continues for two years the deposit evolves into a penalization. Initially, the time between the last warning and the actual implementation of a sanction was ten months which was then in 2005 changed into sixteen months. It was later stated that the Council is able to even extend this period by simply not taking any action (Verhelst 2011: 9).

"*While the SGP has set overall limits on deficits and debt, not all countries have stayed within the targets. It can be argued that the SGP is the wrong instrument to coordinate fiscal policy altogether as it provides only a blunt and rigid instrument for policy-making*," (McNamara 2005: 155).

There was a further reform made to the Stability and Growth Pact in the year of 2011 which reinforced and tightened up the regulations. This modification targeted mainly blind spots in the original version of the Pact. In fact, in the beginning of 2013 another changes to the Pact started to be applicable. These further strengthen the directives towards discipline in budget-keeping[51]. This will be in detail described in Chapter 5.

[51] Information about the Stability and Growth Pact, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm, 5.4.2013.

5 The Economic and Monetary Union after the emergence of the crisis

It is argued that the Economic and Monetary Union, and consequently the whole European Union, has been dealing with three types of crises: a banking crisis, a sovereign debt crisis and a growth of the euro area crisis. The banking crisis originated in the United States in 2007. The housing market in the US started to clash as the values connected to mortgages became questionable in quality. Banks then began to have problems with finding financing. This trend consequently expanded to Europe.

Second of the crises is a sovereign debt crisis that gradually afflicted some countries of the Eurozone. First Member State to feel the pressure of the crisis was Greece in late 2009. Since then it spread into another countries, such as Portugal, Spain, Ireland, Italy, Cyprus and currently possibly Slovenia, as well.

The third kind of crisis is in growth of the euro area, connected mainly with high level of unemployment across the European Union.

All of these crises are influenced by one another and connected to each other. There have been many decisions made and new policies pursued within the European Union to fight those problems. Along with appearance of the crises, flaws in setting of the European and Monetary Union itself came out that were accompanied by the insufficient obedience of the Member States (Shambaugh 2012: 1-16).

"*Since the fiscal stabilization measures in favour of euro-area peripheral countries have undermined the basic principles of the EMU, it is obvious that there has to be a fundamental and far-reaching reform of economic governance in the euro area. First, the European leaders agreed that the fiscal rules must be tightened since their application in practice had proven too weak. Second, they*

agreed that macroeconomic imbalances should be addressed earlier and more effectively. The crisis demonstrated that sound public finances are a necessary, but not sufficient, condition for financial and economic stability. Ireland, for instance, was among the least-indebted countries of the euro area before the crisis erupted. Finally, the leaders agreed to establish a permanent stabilization mechanism since it is an illusion to believe that a reform of economic governance might prevent the reoccurrence of fiscal crises in the future," (Weber 2011: 239-240). The changes made to the governance are further described in section 5.2.

5.1 Revealed shortcomings of the system

At the time of entering the Eurozone, most of the Member States had not fulfilled the convergence criteria defined in the Maastricht Treaty. Therefore, the euro was implemented despite the fact that the countries were not ready for it. "*But once the countries entered the Eurozone, there was little that the EU or ECB could do to enforce fiscal and economic discipline. Even with the weak qualification standards under which the euro was created, it would have been possible to impose greater convergence post-creation to stability Eurozone fundamentals if the EU and the European Central Bank (ECB) had strong enforcement mechanisms. At the very least, the economic benefit of reduced interest rates under the Eurozone should have been used to pay down government debt and maintain fiscal responsibility*" (Kuo 2012: 3-4).

Many think such short recessions, such as the one that affected the Eurozone, are caused by implementation of inadequate policies in the afflicted countries. This then leads to decrease of wages, raising taxes and decline in spending. However, as long as the European Central Bank "*tolerates weak demand in the Eurozone as a whole and so long as the EU's founder members (especially Germany) run trade surpluses, it will prove impossible for less competitive nations to avoid insolvency. Their problems cannot be resolved by fiscal austerity*

alone, but only by a large rise in the external demand for their output" (Baimbridge – Burkitt – Whyman 2012: 98-99).

5.1.1 Unsatisfactory Growth and Stability Pact

As it was explained earlier, Member States are fined if not following the basic criteria stated in the Growth and Stability Pact. However, the Pact does not include any procedures on how to act when a Member State coherently does not abide by rules, as there is no such punishment to suspend such country, or when the whole euro area falls into a recession for a longer period of time (Prokopijevič 2010: 371).

There were at least two cases throughout the history of GSP when Member States violated the rules. Even after a warning from the European Commission, Germany in 2002 and France in 2003 did not proceed to lowering their deficits. The ECOFIN later decided not to continue to the Excessive Deficit Procedure (EDP) and consequently in 2005, the European Commission lowered the requirements on the states' public finances.

It is claimed that after such course of events, the Member States were not motivated enough to actually follow the stated criteria, especially not after the approach of the financial crisis in 2007 when no state wanted to even more deteriorate financial situation of others (Ngai 2012: 18-20).

5.1.2 Fiscal rules that do not fulfill their purpose

As far as the fiscal rules of the European Union are concerned, it is striking that even at times of growth of the economic situation in the euro area the countries did not profit of such state and there were no fiscal reinforcements made, nor were there any reserves created for potential economic setback. This only suggests that core aspects of the Maastricht Treaty, as well as the Stability and Growth Pact, were not followed (Jílek – Lacina 2011: 64-65).

After emergence of the crisis, the European Union addressed this obvious flaw and in 2011 came up with the Euro Plus Pact which is an agreement among the Eurozone countries. However, it is possible for states out of the euro area to join. It pursues even larger coordination. As a successor of the Growth and Stability Pact, the Euro Plus Pact focuses on sustainable public finances, employment and competitiveness[52].

5.1.3 Flaws in the design of the European Central Bank

When looking at the European Central Bank, retrospectively, there are a few visible deficits to its pursuit. The ECB namely concentrates on the average, therefore does not consider situation in individual countries when pursuing its monetary policy. Consequently, each Member State can feel one policy to have different effects, depending on where the particular country stands. "*Initially, it adopted a low interest rate policy in 2002–03, which stimulated financial speculation. However, after 2005 it changed strategy so that rates climbed until the autumn 2008 crash. Indeed, it bowed to German pressure in June 2007, and as late as July 2008 raised interest rates to curb 'external inflation' despite an already tight monetary environment*," (Baimbridge – Burkitt - Whyman 2012: 98).

Furthermore, the ECB is not, according to the Maastricht Treaty, responsible for any crisis management, nor has it any institutional powers to do so. The settlement of such problems still stays at the national level, and it is in the agenda of national central banks. There is only one occasion when the European Central Bank is entitled to act as a part of the crisis management. This occurs when there have been delays and other problems to payments in the European interbank system (Cohen 2008: 41).

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[52] The EMU policy framework, available at: http://www.ecb.int/ecb/tasks/europe/emu/html/index.en.html#europlus, 8.4.2013.

Whereas, the decision-making monetary policy is clearly stated, the policy-making in connection with the exchange rates is not as single-valued. It is defined that any exchange-rate agreements with non Member States of the euro area lie in the responsibility of the ECOFIN council and as such they are then mandatory for the European Central Bank to follow. However, in case such agreement does not exist, it is the Council that, after having the issue discussed with the Commission and then the ECB, orientates the exchange-rate policy towards countries out of the Eurozone, bearing in mind that consequences of such decisions cannot be in violation of stability of prices as the core objective of the European Central Bank. Such setting is, however, immensely ambiguous (McNamara 2005: 157).

There is yet another shortcoming to the setting of the European Central Bank. Its decision-making body, comprising of six members of the Executive Board along with seventeen governors of individual national central banks, is much larger than any other management body of a central bank in the world. Ideally, all members of the European Union will eventually join the Eurozone which would lead to an increase of the number of people negotiating. Such situation would consequently result in drawn-out discussions and the decision-making would become much more difficult.

To avoid this inconvenience, there was a change made in 2003 and it was decided that votes within the Governor Council would be on rotating basis, not exceeding the number of governors by fifteen. Even though such solution unravels the problem of a too large body, other complications arise. In the new setting, the flow information is limited. Simultaneously, "*the reform may well deepen rifts within the Governing Council, since the rotation model is so unabashedly state-based. Votes are allocated strictly along lines of national identity. In principle, governors are supposed to be fully independent professionals operating in a personal capacity, making monetary policy*

objectively for the Euro Area as a whole. In practice, however, they may now be forgiven for thinking first of their own countries rather than in terms of collective interests" (Cohen 2008: 47-48).

The monetary policy issued by the European Central Bank has also been criticized for its ambiguity, as it demands the inflation rate to be "below but close" to 2 %. However, since the rate is very often above 2 % within the euro area, such setting questions the credibility of the ECB (De Grauwe 2006: 140-141). As the monetary policy is unified in the whole euro area, there is no way for the individual governments to implement their own exchange or interest rates in order to bring their economies into a stable state (Baimbridge – Burkitt – Whyman 2012: 98).

5.1.4 Deciding based on to the average

The economic policy rules according to which the European Union acts are based on the leading Member States that prioritize a strong currency and stable prices. That causes high costs as there are gaps between the levels of progression of individual countries. "*These costs are related to pro-cyclical effects of aligning fiscal and budgetary policy of less developed countries with economic policy standards of countries with strong currencies in a context of weak growth and rising unemployment. These policies increase the risk of social shocks. They also slow down the pace of less developed countries' growth while the EMU bet success was conditioned to the maintenance of growth differentials in favour of their development catching-up process*" (Sifakis-Kapetanakis 2010: 5-6).

5.1.5 No tools to ensure discipline

Another insufficiency was reflected in the fact that any of the reforming treaties did not bring the assurance of obedience of the Member States, or any measures that would force fiscal coordination and stability of the euro area, or

reinforce the ability of the institutions to safeguard banking and fiscal steadiness (Dyson 2008: 8).

Although we might find many flaws and defects in the design of the European and Monetary Union, we also need to realise that such arrangement is not the sole reason for the crisis. As mentioned above, it also depends on the behaviour of the individual Member States, as well as their level of development and overall financial situation before the recession hit (Koronowski 2011: 87).

5.2 Changes to the system since emergence of the crisis

Since the crisis emerged, there have been many modifications made to protect the Economic and Monetary Union, and therefore the whole European Union, from further deepening of the recession. The European Union adopted changes to its original setting, as well as brand new institutions and processes.

5.2.1 Strategy Europe 2020

The Strategy Europe 2020 was introduced in June 2010 and it successes the Lisbon Strategy. It is a development strategy that sets out priorities and objectives on the level of the European Union, as well as the individual Member States for the period from 2010 to 2020. The three main goals are smart growth (support of education, research, innovations and development of digital society), sustainable growth (focus on competitiveness and environmental friendliness) and inclusive growth (high employment as a precondition for economic, social and territorial cohesion)[53].

All of the European Union Member States have approved to this strategy and agreed for the strategy targets to become national ones, as well.

[53] Explanation of the term Europe 2020, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/vyklad_slovnik.html?PG=S#Strategie Evropa 2020, 11.4.2013.

Along with the Strategy Europe 2020 comes also a new mechanism called European Semester which is an annual cycle of economic policy coordination, both on the level of the European Union and the Member States. The European Commission once a year prepares a thorough analysis of structural and economic revisions of each country and on its basis puts together recommendations for the state for the following 12-18 months. If the country does not act on the recommendations, it may be punished with sanctions[54].

Another new tool connected with the Strategy Europe 2020 is the Directorate General for Economic and Financial Affairs (DGECFIN) that has been set up to pinpoint the main economic challenges that might affect the European Union and the Member States. It is also designed to surveillances advancement of the strategy and proposes changes to the areas that are behind. Such mechanism ensures of a greater supervision of the individual economies[55].

5.2.2 European Systemic Risk Board (ESRB)

The European Systemic Risk Board was established as a response to the crisis in December 2010 as a part of the European System of Financial Supervision (ESFS). It supervises the financial system on the level of the European Union. Its task is to indentify risks to the financial stability and to prevent or moderate those risks. The ESRB then issues warnings and recommendations for national surveillance institutions and monitors their implementation[56].

[54] Explanation of the term European Semester, available at: http://ec.europa.eu/europe2020/making-it-happen/index_en.htm, 11.4.2013.

[55] Information about Europe 2020, available at: http://ec.europa.eu/economy_finance/structural_reforms/europe_2020/index_en.htm, 11.4.2013.

[56] Mission, objectives and tasks of the European Systemic Risk Board, available at: http://www.esrb.europa.eu/about/tasks/html/index.en.html, 11.4.2013.

5.2.3 The Six-pack

The Six-pack introduces new economic governance laws that reformulate the Stability and Growth Pact and presents new macroeconomic monitoring. It came into effect in December 2011. The Six-pact strengthens the precautionary and the correctional part of the Pact[57].

5.2.4 European Stability Mechanism (ESM)

The European Stability Mechanism was created in 2012 as a permanent tool for financial assistance to the countries of Eurozone. It replaced two contemporary mechanisms – European Financial Stability Facility and European (EFSF) and European Financial Stabilisation Mechanism (EFSM) that were established in 2010 as a response to the emerging crisis. It is possible for the non euro area states to participate, but only in the form of bilateral agreements[58].

The ESM, designed as an intergovernmental organisation, has a capital of 700 billion euro obtained from the Member States. Its goal is to offer loans to the countries in financial difficulties and their governments, interpose in the markets and provide precautionary assistance[59].

For the country to qualify for any help, it is required to meet certain conditions in the area of economic and budgetary discipline. It is also designated that the difficulties of the state might threaten the whole Eurozone[60].

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[57] Summary of the Treaty on Stability, Coordination and Governance, available at: http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm, 11.4.2013.

[58] Explanation of the term European Stability Mechanism, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/vyklad_slovnik.html?PG=E#Evropský stabilizační mechanismus, 11.4.2013.

[59] Information about the European Stability Mechanism, available at: http://ec.europa.eu/economy_finance/european_stabilisation_actions/esm/index_en.htm, 11.4.2013.

[60] Explanation of the term European Stability Mechanism, available at: http://www.zavedenieura.cz/cps/rde/xchg/euro/xsl/vyklad_slovnik.html?PG=E#Evropský stabilizační mechanismus, 11.4.2013.

5.2.5 Treaty on Stability Coordination and Governance in the Economic and Monetary Union (TSCG)

The first article of the treaty states that *"by this Treaty, the Contracting Parties agree, as Member States of the European Union, to strengthen the economic pillar of the economic and monetary union by adopting a set of rules intended to foster budgetary discipline through a fiscal compact, to strengthen the coordination of their economic policies and to improve the governance of the euro area, thereby supporting the achievement of the European Union's objectives for sustainable growth, employment, competitiveness and social cohesion"* (European Commission 2012: 9) *.*

The TSCG entered into effect in the beginning of 2013 and it was signed in 2012 by all European Union members, except for the Czech Republic and the United Kingdom. However, the Treaty does not overcome the Six-pack as the two agreements work alongside each other. By signing the treaty, the states have committed to keep their national budgets in balance or in surplus. The rules implied are kept from the Stability and Growth Pact with a lower limit of a structural deficit of 0.5 % of GDP. The requirement of balance is also mandatory to become a national law in each of the countries[61].

The European Court of Justice is to take actions in case any state does not follow the demands and introduce financial penalties in the amount of 0.1 % GDP. The money obtained such way would then be provided for the uses of European Stability Mechanism.

[61] Summary of the Treaty on Stability, Coordination and Governance, available at: http://www.european-council.europa.eu/home-page/highlights/treaty-on-stability,-coordination-and-governance-signed?lang=en, 11.4.2013.

The treaty also appeals for greater coordination of economic policies, further partnership programmes, as well as strengthened monitoring[62].

[62] Summary of the Treaty on Stability, Cooperation and Governance, available at: http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm, 11.4.2013.

6 Conclusion

In my Bachelor thesis, I dealt with structural causes of the crisis of the Economic and Monetary Union of the European Union. I posed the critical question whether it is the improper set-up or non-compliance of the rules by the Member States that stands behind the current problems of the EMU.

From my research, I came to the conclusion that the causes of the crisis of the EMU may be defined, apart from the external influences, as two-fold: improper set-up and loosening policy and structural deficiencies of the EMU itself, as well as macroeconomic terms of individual Member States. It seems that we cannot put those two factors apart as they both had effect, not only on each other, but also on the further development in Europe.

The improper set-up can be seen in the unsatisfactory lay-out of the Growth and Stability Pact that was not able to enforce discipline among countries despite the fact that obedience of the Member States and further adherence to the convergence criteria was its main goal. Simultaneously, no mechanism or institution existed that would consistently push a disobedient country towards improvement its financial situation. However, the shortcomings of the system are most visible in the design of the European Central Bank. Being ambiguous in the area of the exchange-rate policy, as well as the monetary policy, having no real competences in case of a crisis and acting according to the average, without paying much attention to the actual results on the national level, the ECB fails to be as credible as it tries to appear.

The fact that the leaders of the European Union are making severe changes to the institutions and processes and to the overall lay-out of the Economic and Monetary Union, along with new mechanisms, can serve as a proof that there, indeed, were and are deficiencies in the design of the EMU.

With regards to the macroeconomic terms of individual Member States, it is a fact that the malfunction of economic governance in individual Member States (Greece, Spain, Italy, Ireland, Portugal and most recently Cyprus and Slovenia) played its role in the deepening crisis. Considering, that at least at one point, one country or another was not following the core rules of the EMU in form of the convergence criteria tells us that from the beginning there was a certain amount of lack of discipline present.

Nevertheless, based on my findings, I can also conclude that the creation of the monetary union is an indivisible part of the European integration. It is, to a large extent, thanks to the establishment of the EMU that the European Union was enlarged by such number of countries and that the euro spread in such scale and became of great importance worldwide.

The European Central Bank, being one of the most important institutions of the Economic and Monetary Union, sets the tone of the EMU, as well as the speed of the EMU. It is the ECB's considerable interest to gradually developing the monetary union to its full content, along with a strong economic union. It is true that only with structured effort will be there substantial basic roots to further build on towards the true stability and credibility the Economic and Monetary Union, and by extension, the European Union, deserves.

As far as I am concerned, the future of Europe and of the euro very much depends on the credibility of the ECB precisely. A high level of transparency and predictability of monetary policy actions is also an important part of credibility as only this way the actions of the ECB can be fully understood, and therefore supported. Trust-building is a long process but it is crucial for successful functioning of the euro area.

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8 List of abbreviations

BEPGs	Broad Economic Policy Guidelines
CFSP	Common Foreign and Security Policy
DGECFIN	Directorate General for Economic and Financial Affairs
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDP	Excessive Deficit Procedures
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EMCF	European Monetary Cooperation Fund
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union of the European Union
EP	European Parliament
ERM	Exchange Rate Mechanism
ERM II	Exchange Rate Mechanism II
ESCB	European System of Central Banks
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
GDP	Gross Domestic Product
IBRD	International Bank of Reconstruction and Development
IMF	International Monetary Fund
JHA	Justice and Home Affairs

NATO	North Atlantic Treaty Organization
SGP	Stability and Growth Pact
TSCG	Treaty on Stability, Coordination and Governance
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WB	World Bank

9 Résumé

L’objet de ce mémoire est la crise de l’Union monétaire européenne, et plus specialement le non respect des règles qui a contribué aux problèmes actuels de l‘Union monétaire européenne. La méthodologie de ce mémoire inclut des analyses qualitatives. Le mémoire démontre que le Pacte de Croissance et de Stabilité n’a pas été en mesure d’imposer discipline et respect des critères de convergence aux États membres, alors que cela était pourtant le but premier du Pacte. De plus, il n’existe aucun mécanisme ou institution pour pousser un État membre ne respectant pas les critères à améliorer sa situation financière. L‘Union européenne fait actuellement face à l’un des épisodes les plus difficiles de son Histoire. Sa monnaie commune, l’euro, est en danger. Les leaders de l’UE ont devant eux de nombreuses décisions importantes à prendre, qui détermineront le futur de l’Union européenne et de son fonctionnement.