THE EUROPEAN PARLIAMENT AND THE EUROPEAN MONETARY UNION

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Introduction

There is no doubt that the Euro will be one of the strongest currencies in the world. It will rely on a number of strong economies making up the world's largest single market. A strong currency is an essential condition for promoting growth and employment. Therefore, the European Parliament has always supported the idea of the European Monetary Union as a further step towards deeper integration.

Monetary Union requires the coordination of fiscal and economic policies. The Parliament has emphasised the need for better coordination of national policies, particularly with regard to the creation of new jobs. The European Parliament will have to ensure that Monetary Union leads to concrete benefits for its citizens. As the only democratically elected Institution, the European Parliament has to assume political control of the decisions taken by the independent Central Bank and the European Council.

This brochure aims at presenting the concept of Monetary Union from the perspective of the European Parliament. It offers general information on the new currency as well as an overview of Parliament's role within the Economic and Monetary Union.

The transition to the Single Currency requires the support of the European citizen as the one who is going to use it. Any currency can only be as strong as the confidence it enjoys. The Euro merits our trust. Trust our trust. Trust is based on understanding. With this brochure, the European Parliament wishes to contribute to the people's understanding and acceptance of the new currency.

BACKGROUND

On 1st. January 1999 a new currency will come into existence - the Euro. By the middle of 2002 it should have replaced most national currencies within the European Community, bringing about full Economic and Monetary Union.

The Conditions

Before participating in the Single Currency, countries must fulfil a number of conditions:

Inflation no more that 1,5 percentage points above the levels of the three best-performing countries;

Long-term interest rates no higher than 2 percentage points above those of the same three countries;

A low budget deficit, measured against a reference level of 3% of GDP;

Overall public debt below, or falling towards, a reference level of 60% of GDP;

A stable exhange-rate within the European Monetary System;

An independent national Central Bank.

The timetable

1997 Inflation, interest-rate, debt and deficit statistics for the year - together with the 1998 Budgets and other indicators - will determine which countries have reached «sustainable convergence».

March/April: The Commission in Brussels, and the European Monetary Institute in Franfurt, will report. The European Parliament will be consulted, and will adopt a resolution. On the basis of these...

1998 April/May: ...the fifteen Heads of State of Government will decide which countries qualify for the «first wave» of participation.

A European System of Central Banks, with the European Central Bank in Frankfurt at its centre, will be established.

1999 1st. January: All the qualifying countries[1] will form the «first wave» of full Economic and Monetary Union. Exchange-rates will be irrevocably fixed against each other and the Euro will come into formal existence[2]. It may be used in accounts, contracts, etc. on a «no compulsion», «no prohibition» basis. New public debt will be denominated in Euros.

Other EU countries will join EMU as they meet the qualifying conditions.

2002 1st. January (at the latest): Euro notes and coins will come into circulation as legal tender, alongside the national currencies.

1st. July (at the latest): National notes and coins will be withdrawn from circulation.

The Institutions

The European System of Central Banks (ESCB), consisting of the EU's fifteen national central banks and the European Central Bank (ECB) in Frankfurt, will be responsible for monetary policy.

The Commission will have general responsibility for monitoring economic and fiscal policy, and for making policy recommendations.

The Council of Economic and Finance Ministers (ECOFIN) will have final responsibility for decisions at Community level on fiscal and economic policy; and also for any agreements on the external exchange-rate of the Euro. There should also be an informal Stability Council, consisting of the Ministers from the countries participating in the Single Currency, which will discuss economic and fiscal policies in the Euro area.

The European Council (Heads of State or Government) will make the final decisions on participation in the Single Currency.

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1. Denmark and the United Kingdom have an option not to join, even if they qualify.

2. Its value will be equal to that of the «ECU basket» of national currencies at the time, which will then cease to exist.

The European Parliament will:

- be the body through which the ESCB and the ECB are (democratically accountable);
- monitor and debate the development of economic and fiscal policy.

Parliament's Committee on Economic and Monetary Affairs and Industrial Policy will have special responsibilities in relations with the ECB and ECOFIN. In April 1992 a Subcommittee on Monetary Affairs was established.

An Economic and Financial Committee, consisting of national and Commission officials, will help coordinate national policies, replacing the existing Monetary Committee.

The Policies

Economic policy. All EU Member States, whether using the Single Currency or not, will continue to treat their economic policies as «a matter of common concern». «Broad guidelines» for each national economy, and for the Community as a whole, will form the basis of policy coordination.

Monetary Policy will be the sole responsibility of the European System of Central Banks. The objectives will be to:

- maintain price stability;
- support the Community's general economic policies, but without prejudice to price stability;
- act within the context of an open market economy and free competition.

Fiscal Policy. All Member States will be under an obligation to «avoid excessive government deficits». Those using the Single Currency will, in addition, be subject to:

A Stability and Growth Pact, which aims for broadly balanced national budgets over the economic cycle, and provides for sanctions against countries with persistently large deficits.

Three «golden rules» on the financing of public debt:

- no monetisation (i.e. no paying for a deficit by «printing money»);
- no bail-out (i.e. no rescue of a government that over-borrows);
- no privileged access (i.e. financial institutions may not be compelled or otherwise induced to fund public debt).

Exchange rates. Member States not within the «fist wave» will continue to regard their exchange-rate policies «as a matter of common interest». A new Exchange Rate Mechanism will be set up to link their currencies to the Euro. The exchange rate of the Euro against the Dollar, Yen, etc. may be the subject of «general orientations».

PARLIAMENT AND EMU

The European Parliament will carry out tasks within EMU at three levels:

- Legislative,
- Supervisory,
- Deliberative.

Parliament's Legislative Role

The European Parliament must be consulted, and a parliamentary vote taken, on:

Which countries qualify for membership of the Single Currency, both for the «first wave» in 1999, and afterwards;

The appointment of the President, Vice- President and other Executive Board members of the European Central Bank;

Legislation preparing for the Single Currency, including implementation of the «golden rules», and any new tasks to be carried out before 1999 by the European Monetary Institute;

The arrangements for introducing Euro coins by Member States (Euro banknotes are the responsibility of the ECB);

Legislation implementing the «excessive deficit» procedure, including the «Stability and Growth Pact»;

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

Changes to the Statute of the European Central Bank, and powers given to the Bank to supervise financial institutions[1].

Parliament's Supervisory Role

Parliament's most important role within EMU will be in relation to the European Central Bank.

Under the Treaty, the Bank will enjoy full independence in determining monetary policy. It alone will have responsibility for setting short-term interest rates, and for using other monetary instruments necessary to preserve the stability of the Euro.

But this operational independence of the ECB will be balanced by accountability for its actions to the directly-elected European Parliament.

Parliament has instituted detailed procedures under its own Rules[2] for its part in the appointment of the ECB President, Vice-President and other members of the ECB Executive Board. The first President of the European Monetary Institute, A. Lamfalussy, and the second, W. Duisenberg, were both approved in this way.

Each year, the President of the ECB will be required to present a report to the European Parliament, meeting in plenary session. This will cover the conduct of monetary policy in both the current and the previous years.

The President of the ECB, and other members of the Executive Board will from time to time appear before the competent committee of the European Parliament. A request for such an appearance may come from either side..

Parliament's Deliberative Role

Commission and Council must report to Parliament on all major decisions and developments in the field of general economic policy. These may form the basis of:

- reports by a Committee of the Parliament;
- a debate by Parliament as a whole, in public;
- a resolution adopted by Parliament as a whole.

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1. In the latter case, and on most changes to the Statute, Parliament's «assent» is needed.

2. Rule 36:

I. The candidate nominated as President of the European Central Bank shall be invited to make a statement before the committee responsible and answer questions put by members.

II. The committee responsible shall make a recommendation to Parliament as to whether the nomination should be approved.

III. The vote shall take place within two months of the receipt of the nomination unless Parliament, at the request of the committee responsible, a political group or at least twenty-nine Members, decided otherwise.

IV. If the opinion adopted by Parliament is negative, the President shall request the Council to withdraw its nomination and submit a new nomination to Parliament.

V. The same procedure shall apply for nominations for Vice-President and Executive Board Members of the European Central Bank and for President of the European Monetary Institute.

In particular, Commission and Council must report to Parliament in the framework of:

The «broad guidelines» procedure, under which recommendations are made on the general direction of economic policy;

The «excessive deficits procedure», under which national levels of deficit and borrowing are monitored. In the case of countries participating in the Single Currency, recommendations for action can be made; and sanctions imposed as a last resort. The Stability and Growth Pact fills out the details.

The «multilateral surveillance» procedure, under which the policies of the Member States are more monitored, and under which recommendations for action by a particular country can also be made. At first, such recommendations will be confidential. In the last resort, they may be made public.

When a recommendation for action by a particular country has been made public, the President of the Councill may be required to appear before the competent committee of Parliament.

Parliament must also be informed of:

The composition of the Economic and Financial Committee; and

Any decisions taken by the Council if a Member State, in exceptional circumstances, suspends the free movement of capital with third countries.

Parliament's view of EMU

The European Parliament has consistently supported the achievement of Economic and Monetary Union within Europe. A delegation from the Parliament's Committee on Economic and Monetary Affairs and Industrial Policy participated in the negotiations which preceded the drafting of the Maastricht Treaty. Numerous resolutions of Parliament have since:

«reaffirmed the contribution of monetary union to the deepening of the European Union, the completion of the internal market, prosperity and employment, and hence greater political and economic security. (Preamble to the resolution adopted in November 1995).

Parliament has also given specific support, in its debates and resolutions, to the primary objective of sustainable price stability; and, in consequence, to the need for independent national and European Central Banks.

More recently, Parliament has drawn attention to the wider economic context of monetary union, and above all to the continuing high rates of unemployment. Though Parliament has supported the limitations on national public deficits and borrowing, it has also supported Commission's 1993 proposals for increased public investment at Community level. For example, its resolution in May 1996 on the Commission's Economic Report for 1996 declared that:

«the expansion of Community financial instruments such as the EIB and EIF, as well as the creation of Community bonds, for the financing of Community investment projects, is vital for a successful transition to EMU».

In the context of applying the qualifying criteria for Single Currency membership, Parliament has also drawn attention to the Treaty provisions which require account to be taken of «whether the government deficit exceeds government investment expenditure» - that is, distinguishing between current and capital expenditure.

A further concern of Parliament has been the need for a high level of public support for, and understanding of, the transition to a Single Currency. A resolution of November 1995 observes that this needs to be:

«so simple and transparent that every citizen will grasp how the currency change-over will work».

On the original initiative of Parliament's Monetary Sub-Committee, a joint Parliament/Commission EMU information campaign in Member States has now been launched. Parliament has also itself established a «Monetary Union Task Force» within its secretariat.

The Stability and Growth Pact

The European Parliament voted on the draft Growth and Stability Pact Regulations on 28th. November 1996 (See Minutes of the session PE 254, 432). The report proposed a number of amendments to both, reflecting the general approach of Parliament to the Pact as a whole. These covered:

Strict adherence to the provisions of the Treaty requiring Parliament to be informed of action taken by the Council;

The importance of taking into account, when assessing national budget deficits, the level of public investment (as required by the Treaty); and to ensure that budgetary policy is set to allow adequate public investment;

The importance of factors other than limits on budget deficits and debt: in particular, the effects of fiscal policy on demand, economic growth and employment;

A requirement that the Regulations should be regularly reviewed by the Council, after consulting the Parliament, the first review to take place in 2001;

Maintenance following the start of EMU Stage 3 of the Cohesion Fund to provide financial help for less wealthy countries;

Exclusion from consideration as public expenditure, in assessing budget deficits, of any deposit or fines payable under the Pact.

The Euro and the citizen

Proposed Regulations on the introduction of the Euro as a Single Currency were voted on by Parliament on 28 November 1996. The report proposed a number of amendments, in particular measures to help the ordinary citizen adapt to a new currency. These included:

Legal protection for consumers against abuses and fraud which might be commited on the introduction of the Euro;

The banning of clauses in a standard contract which might enable permit one of the parties to avoid obligations in the event of the Euro replacing the national currency;

Conversion software should be made available at the outset to financial institutions by Central Banks to enable any debtor to discharge his debt in the currency of his choice;

Conversion between a currency in a participating Member State and the Euro should be free of charge. Conversion between participating currencies should be based on the official conversion rates, and any transaction costs separately identified;

Member States should take measures to ensure that, during the critical period when the Euro is being introduced as legal tender, the display of prices in Euro should not mislead consumers as to the actual value of goods or service purchased.

On 18 February 1997 Parliament also voted on a draft Directive of consumer protection, and proposed an amendment so that:

In the transitional period following the introduction of the single currency, the following three prices might be indicated: (1) the selling price in the national currency; (2) the selling price in the single currency; and (3) the price per unit in the single currency.