

THE MAASTRICHT TREATY

The economic and monetary part of the Treaty on European Union, adopted in Maastricht on 10 December 1991 by the Heads of State or Government of the European Community and officially signed on 7 February 1992 by the Ministers of Foreign Affairs, came into force in the twelve countries forming the Community on 1 November 1993, following a process of ratification specific to each country.

Denmark ratified the Treaty in 1993 after having rejected it in a referendum in June 1992. Two countries, Denmark and the United Kingdom, have been granted an opt-out clause. This means that they are neither obliged nor committed to adopt the euro unless they decide to do so.

Austria, Finland and Sweden ratified the Maastricht Treaty upon joining the European Union on 1 January 1995.

The Delors report (June 1989), submitted in June 1989 by a committee essentially made up of the governors of national central banks, proposed the introduction of Economic and Monetary Union (EMU) in three stages:

- Stage one started on 1 July 1990 with the full liberalisation of capital movements;
- Stage two started on 1 January 1994 with the creation of the European Monetary Institute (EMI), forerunner of the European Central Bank (ECB);
- The third and last stage, i.e. the launch of monetary union and the introduction of the euro, could have started on 1 January 1997 if a majority of Member States had met the conditions laid down by the Treaty as early as 1996 (cf. 2.1) and if the European Council had decided so in 1996.

The European Council, meeting in Madrid in December 1995, finally decided that the third stage of EMU would start on 1 January 1999, that is the latest date foreseen by the Treaty, even if a majority of countries had not met the conditions necessary for participating in the third stage of EMU.

The Maastricht Treaty was later followed by the Treaty of Amsterdam. This Treaty, which was signed in October 1997 and entered into force on 1 May 1999, does not however cover Economic and Monetary Union (only from a formal point of view as part of the renumbering of the Treaty articles). Similarly, the Treaty of Nice, which was signed in February 2001 and entered into force on 1 February 2003, hardly touches on these aspects.

1. APPLICATION OF THE TREATY DURING THE SECOND STAGE

Stage 2 of EMU was characterised by the increased coordination of economic and monetary policies and the implementation of rules regarding budgetary discipline. These obligations are still in force, with certain amendments, in the third stage of EMU.

1.1. Coordination of economic and monetary policies

The Economic and Financial Affairs Council (Ecofin) monitors economic developments in each Member State, on the basis of reports submitted by the Commission.

According to Article 99, Ecofin draws up a draft for the broad economic policy guidelines (BEPGs) of the Member States and of the Community and reports its findings to the European Council. On the basis of this report, the European Council adopts a recommendation setting out these broad guidelines. The European Council shall inform the European Parliament of its recommendation. The Ecofin can address particular recommendations to a Member State whose economic policy is not consistent with the broad guidelines. It can make its recommendations public only acting by a qualified majority on a proposal from the Commission.

Up until the beginning of the third stage, monetary policy coordination was conducted by the EMI Council and its sub-committees in charge of monetary policy and exchange rate policy.

1.2. Monitoring of budgetary discipline

As from Stage 2, the Treaty prohibits the direct financing of public entities' deficits by national central banks (Art. 101), be it overdraft facilities, other types of credit facility or the purchase of debt instruments, except for the purpose of monetary policy. The Treaty also prohibits public entities' privileged access to financial institutions (Art. 102). Moreover, the "no bail-out" clause in Article 103 stipulates explicitly that neither the Community nor any Member State is liable for or can assume the commitments of any other Member State.

Member States shall also avoid excessive government deficits (Art. 104). The Ecofin Council is in charge of assessing the progress made with regard to government deficits (Art. 116) in the light of the convergence criteria.

2. CONDITIONS FOR JOINING MONETARY UNION

The transition to monetary union presupposes that all national central banks are independent, and in particular that all future governors of the European System of Central Banks (ESCB) serve an irrevocable term of at least five years and be prohibited from seeking or taking instructions from Member States, the Commission or any other body (Art. 108).

Most of all, this transition is conditional upon the fulfilment of economic criteria, i.e. the achievement of a high degree of sustainable convergence between Member States.

2.1. Transition to Monetary Union conditional upon the fulfilment of economic convergence criteria

The convergence criteria set out in Article 121 (and the Protocol) of the Treaty are intended to reflect both the internal and external stability of national currencies and the sustainability of budgetary policies. They are the following:

- the rate of inflation must not exceed by more than 1½ percentage points that of, at most, the three best-performing Member States in terms of price stability,
- the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System (replaced by the new exchange-rate mechanism on 1 January 1999), without severe tensions and without devaluing against the currency of any other Member State for at least two years,
- an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability over a period of one year,
- a government budgetary position without a deficit that is excessive, i.e. the annual government deficit does not exceed 3% of GDP and the ratio of government debt to GDP is below 60%.

The Commission and the ECB regularly assess the progress made with regard to economic and monetary convergence.

2.2. Transition to Monetary Union

Monetary Union started on 1 January 1999. It is composed of the countries that fulfil the necessary criteria, irrespective of their number. According to the Treaty, the Commission and the EMI each report to the Council on the situation of Member States with regard to the convergence criteria and central bank independence. The first reports on economic and legal convergence were published in March 1998, prior to the creation of the ECB. The latter has, since then, taken over this task from the EMI. On the basis of these reports, and after having consulted the European Parliament, the Council, meeting in the composition of the Heads of State or Government and acting by a qualified majority, assesses which States fulfil the necessary conditions for the adoption of the single currency.

The Council re-examines the situation of those Member States which do not fulfil the necessary conditions, the so-called “Member States with a derogation”, at least once every two years, or once a year at the request of a Member State with a derogation. The Council shall abrogate the derogation as soon as all of the criteria laid down in the Treaty are met. According to the Protocols annexed to the Treaty, the United Kingdom and Denmark are under no obligation to adopt the euro without a separate decision from their part to do so.

3. ORGANISATION OF MONETARY UNION

The European Central Bank, in charge of conducting the single monetary policy in euro, was established in the first half of 1998. It was set up prior to the start of Stage 3 of EMU to ensure that the infrastructures would be fully operational by 1 January 1999. The ECB and the national central banks (NCBs) of the 25 EU Member States make up the European System of Central Banks (ESCB). In addition to defining and implementing monetary policy, the ESCB is also in charge of promoting the smooth operation of payment systems, contributing to the prudential supervision of credit institutions and the stability of the financial system (Art. 105-2).

The Eurosystem is composed of the ECB and the NCBs of the Member States that have adopted the euro.

4. RESPONSIBILITIES IN TERMS OF EXCHANGE RATE POLICY

The Treaty clearly defines the respective responsibilities of the two relevant institutions: the ECB Governing Council and the EU Council (Ecofin).

The EU Council may conclude formal agreements on an exchange rate system with non-Community currencies, after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability (Art. 111-1).

In the absence of a specific exchange rate system (i.e. under a “floating regime” which most world currencies have established), it may formulate “general orientations for exchange rate policy” in relation to non-Community currencies (Art 111-2). The conclusions of the European Council in Luxemburg (December 1997) clarified this provision in the Treaty: the Council may formulate such general orientations for exchange-rate policy, only in exceptional circumstances, for example in the case of a clear misalignment. These general orientations should always respect the independence of the ESCB and be consistent with the primary objective of the ESCB to maintain price stability.

In this context, the responsibility of conducting foreign exchange operations is entrusted to the ESCB (in practice, the Eurosystem, because this provision only concerns Member States that have adopted the euro): this is one of its basic tasks, alongside holding and managing the official reserves of the Member States (Art. 105-2).