

# **Economic and Monetary Union**

**Michele Chang**



palgrave

# Contents

<i>List of Figures, Tables and Boxes</i>	<i>x</i>
<i>Abbreviations</i>	<i>xii</i>
<i>Acknowledgements</i>	<i>xv</i>
<b>Introduction</b>	<b>1</b>
<b>1 History of Economic and Monetary Union</b>	<b>9</b>
From the Snake to the EMS	9
<i>The Werner Plan and the Snake, 1969–1976</i>	9
<i>The European Monetary System and the Road to Economic and Monetary Union, 1979–1998</i>	12
Launching Monetary Union, 1999–2008	20
Crisis and Aftermath: Reconstructing EMU, 2008–present	23
<i>Phase 1: The Global Financial Crisis and Incremental Integration</i>	23
<i>Phase 2: The Sovereign Debt Crisis: Building up Crisis Management and Strengthening Fiscal Policy Cooperation</i>	24
<i>Phase 3: Banking Union and Muddling Through, 2012–present</i>	29
Conclusion	31
<b>2 Monetary Integration</b>	<b>35</b>
Evolution EMU 1.0	35
<i>Legal and Theoretical Bases of EMU 1.0</i>	35
<i>Integration under Fire: EMU 2.0, “a genuine economic and monetary union”</i>	41
Institutions	49
<i>European Council/Euro Summit</i>	49
<i>Ecofin/Eurogroup</i>	51
<i>European Central Bank (see Chapter 3 for a fuller elaboration)</i>	52
<i>European Parliament</i>	54
<i>European Commission</i>	55

<i>European Stability Mechanism</i>	57
<i>The Institutions (formerly known as the troika)</i>	61
Conclusion	62
<b>3 The European Central Bank</b>	<b>64</b>
Institutional Configuration and Legal Mandates	64
<i>Structure</i>	66
<i>Functions: Monetary Policy</i>	70
<i>Functions: Financial Supervision and the Single Supervisory Mechanism</i>	71
The ECB's Record	80
<i>Beyond Price Stability: The Global Financial Crisis and Sovereign Debt Crisis</i>	81
<i>Non-standard Measures</i>	84
Conclusion	91
<b>4 Financial Integration and Banking Union</b>	<b>93</b>
Evolution	93
<i>The Origins of Cooperation</i>	94
<i>Financial Services Action Plan and the Capital Requirements Directive</i>	95
<i>The Global Financial Crisis and the EU's Response</i>	97
<i>Banking Union</i>	104
Institutions	110
External Dimension	112
<i>The G20</i>	112
<i>Basel Committee on Banking Supervision</i>	115
<i>Financial Stability Board</i>	117
Conclusion	119
<b>5 Fiscal Policy Coordination</b>	<b>121</b>
Evolution	121
<i>Post-crisis Fiscal Policy Reforms</i>	125
Instruments	133
<i>Stability and Growth Pact</i>	133
<i>The Six Pack</i>	136
<i>Fiscal Compact</i>	137
<i>The Two Pack</i>	138
Conclusion	141
<b>6 Economic Policy Coordination</b>	<b>142</b>
Evolution	142
Institutions and Instruments	152
<i>European Semester</i>	153

<i>Broad Economic Policy Guidelines</i>	155
<i>Europe 2020</i>	155
<i>Macroeconomic Imbalances Procedure</i>	157
<i>Euro Plus Pact</i>	161
Conclusion	162
 7 The Euro Outs: A View from the Outside	 164
Becoming a Euro Insider	164
Evolution	167
The Euro Outsiders with Opt-outs	171
<i>Denmark</i>	171
<i>The United Kingdom</i>	173
Pre-euro Accession Countries	175
<i>Bulgaria</i>	175
<i>Croatia</i>	177
<i>Czech Republic</i>	177
<i>Hungary</i>	178
<i>Poland</i>	180
<i>Romania</i>	181
<i>Sweden</i>	182
Remaining in as an Out	184
<i>European Central Bank</i>	184
<i>Stability and Growth Pact</i>	185
<i>Euro Plus Pact</i>	185
<i>Treaty on Stability, Coordination and Governance</i>	185
<i>Banking Union</i>	186
Conclusion	186
 8 EMU and the World	 189
The Euro as an International Currency	189
China and the Euro	199
External Representation	203
<i>Exchange Rate Policy</i>	205
<i>International Monetary Fund</i>	207
Conclusion	214
 Conclusion	 217
<i>Bibliography</i>	228
<i>Index</i>	265

# List of Figures, Tables and Boxes

## Figures

1.1	Map of the Euro Area	2
2.1	EMU 1.0	39
2.2	EMU 2.0	45
2.3	EU and Euro Area Institutions	53
2.4	ESM Contributions as a Percentage by Country	59
3.1	ECB Voting Rotation of Governing Council	67
3.2	Division of Tasks between National- and European-Level Financial Supervisors	73
3.3	Outline of the Decision-Making Structures under the Supervisory Mechanism	75
4.1	European System of Financial Supervision Chart	102
4.2	Institutional Triangle for Financial Regulation	110
4.3	Banking Union	111
5.1	Annual Cycle of Two-Pack Surveillance	138
6.1	Calendar of the European Semester	154
6.2	Diagram of Macroeconomic Imbalances Procedure	160
8.1	Monetary Policy Frameworks and Exchange Rate Anchors – per cent of IMF Members	193
8.2	Global Holdings of Foreign Exchange Reserves by Share of Currency	196
8.3	EU Trade Flows with China (growth in %)	200
8.4	SDR Composition, 2010 and 2016	204

## Tables

1.1	EMS Realignments against Central Rates 1979–1993	14
1.2	Council Decision 98/317/EC of 3 May 1998 on Identification of the Member States Participating in the Third Stage of EMU	21
1.3	EMU Membership	23
1.4	Time Line on Crisis and Strengthening Euro Area Governance by Sector, 2008–2015	32

2.1	Euro Area Economic Adjustment Programme Support	58
3.1	National Financial Supervisory Authority of Euro Area Countries	77
4.1	Summary of Banking Union Legislation	108
5.1	Overview of Ongoing Excessive Deficit Procedure (as of 1 May 2015)	135
5.2	Comparison of Stability and Growth Pact, Six Pack and Fiscal Compact: Corrective Arm	140
6.1	Summary of Euro Area Varieties of Capitalism Models	143
6.2	Alert Mechanism Report Scoreboard	158
7.1	Participation in the ERM II	165
7.2	Summary Table of Euro Outsider Membership in Eurozone Governance	186
8.1	Key Figures Comparing the US and the EU-27/Euro Area Economy	191
8.2	Dollar versus Euro as an International Currency	192
8.3	Countries and Territories with Exchange Rate Regimes Linked to the Euro	194
8.4	EU Voting Power in the IMF (Eurozone countries in bold)	208

## **Boxes**

5.1	Fiscal Multiplier Debate: The Battle of the Boxes	132
-----	---	-----