FINANCIAL CONFIGURATIONS AND INTERACTIONS IN A TRANSFORMATION PROCESS OF A GLOBAL ECONOMY

ECONOMIC AND MONETARY EUROPEAN UNION REALITY BETWEEN THEORY AND PRACTICE

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Abstract

This article aims to present the summary of issues related to Economic and Monetary Union (EMU) in the context of EU enlargement, analyzing legal rules and practical problems appeared. EMU Stability and Growth Pact is a challenge for Member States in circumstances where exactly the European Union Member States who have campaigned for the budgetary discipline required more relaxed conditions on the provisions of the Pact. Convergence criteria laid down in the Maastricht Treaty (TEU) began to be increasingly difficult to be respected by Member States, therefore it was decided to greater flexibility of restraining and Growth Pact.

Key-words: *Economic and Monetary Union (EMU) convergence criteria, budget deficit, inflation, Government indebtedness, the Stability and Growth Pact, European System of Central Banks (ESCB)*

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Introduction

The Economic and monetary union is regulated in the European Union Treaty (TEU). Three and a half years after entry into force on July 1, 1987, the Single European Act, the evolutionary process of community building has been revived by adopting the texts after they merged with the Union's political and economic and monetary union have resulted in the Treaty on European Union, signed on February 27, 1992.

The Maastricht Treaty was originally there in 1989, the Delors Report, which outlines stages of economic and monetary union, regarded as an indispensable tool to establish an internal market without frontiers.

EU objectives are presented in art. B of the Treaty on European Union (TEU):

a) promote balanced economic and social and sustainable progress, in particular by creating space without internal frontiers, through strengthening economic and social cohesion by establishing an economic union money, including a single currency in the future;

b) the affirmation of his identity on the international scene, in particular by implementing a common foreign and security policy, including the definition of a common defence policy, which could lead to a common defence in the future. Joint actions will be taken on the basis of unanimity, but will be introduced on the basis of qualified majority voting in matters relating to procedures and modalities for implementation of joint plans, the Western European Union (WEU), reinforced arm of the European Union will lead to achieving EU decisions on defence;

c) strengthening the protection of the rights and interests of citizens of Member States through the introduction of Union citizenship – this is a great innovation of the Treaty and is entitled to elect and be elected Union citizens (in the European institutions or local) in any country EU they reside;

d) in developing a closer cooperation in justice and home affairs, intergovernmental cooperation will have a place on unanimous vote and will cover issues of common interest such as the right to asylum, immigration, visas, police;

e) maintain full community acquis and to ensure efficient development of mechanisms and the Community institutions. The subsidiarity principle was introduced in an attempt to overcome the division of powers between the Union and Member States, the Union will intervene only in those areas which are exclusive competence (e.g. Industry, education, health) and „insofar as the objectives of the action cannot be sufficiently achieved by Member States".

f) creating cohesion funds to help the poorer regions for infrastructure development and environmental protection

g) adopt a common social policy – the Member States undertake to fight unemployment and increase social security for their citizens.

The Economic Union is a vital link in the Monetary Union, aimed at introducing a new currency – Euro. EMU is not an end in itself but contributes to achieving the objectives of the TEU, but also the delivery of EMU is based on completing the internal market. EMU has two components: economic and monetary component, both as a permanent interdependence.

Meanwhile, the Monetary Union without a political union is incomplete and meaningless in economic terms. After careful consideration of the legislative framework it should be noted that light TEU introduces a common monetary policy, but this contains little evidence that could lead to a true political union, although Monetary Union favours political union within the meaning inevitability of propagation effects. However, questions raised political decisions aimed at Member States and the EU.

The Economic Union involves directing the economic policies of Member States and the Community Council of Ministers, which will oversee development of the economy in each Member State and Community. Monetary union is working to start the final phase of EMU, while communities will have a single monetary policy.

Convergence criteria under the Maastricht Treaty

On May 2, 1998 EU countries were selected to participate in the Euro, after an analysis of how they have fulfilled the following convergence criteria:

* Inflation < 3%
* long-term interest rate < 8.5%
* deficit < 3% of GDP
* Government indebtedness < 60% of GDP
* national currency to join the EMS at least two years.

This is the abridged version of the convergence criteria, whereas in TEU criteria are presented below:

1. Price stability is expressed by an inflation rate of max. 1,5% of the most well located three countries in this regard.
2. Interest rate on term loans under 2% of average interest rates ranked top three but not more than 8.5%.
3. The budget deficit must not exceed 3% of GDP.
4. Public debt below 60% of GDP.
5. Stability studies, that the national currency exchange rate over the past two years have maintained the margin of fluctuation of exchange rates agreed by the mechanism of the EMS (2.25%), not to proceed with the realignments.

Countries included in number 11, were: Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Portugal and Spain. Greece failed to meet the convergence criteria and therefore was not included in this wave. Three other countries – Denmark, Britain and Sweden – have so far refused to introduce the Euro.

Denmark has also notified the Council's position in connection with the third stage of EMU, the „Protocol No. 12 on certain provisions relating to Denmark", before the Council decision to undertake an assessment under section 2 of the Treaty 109 J. This is because – under the Constitution of Denmark – have to consult people in a referendum on the country's commitment in the third stage of EMU.

According to the Protocol, Denmark notified if not in the third phase, benefiting from an exemption under the provisions applicable to Denmark and the Treaty and the ESCB Statute (European System of Central Banks). Termination exemption application is made only upon request of Denmark, and with the absence of the exemption ceases and the applicability of Protocol. 12.

Applying the convergence criteria was not „purely mechanical", but to take into account the efforts undertaken by governments and future prospects. All those European countries have made efforts to meet these criteria. „Culture stability"; as stated by Hervé Carré, Director of Monetary Affairs in the EU Commission – is best illustrated by the economic performance of 11 EU Member States.

In 1993 these countries had an average inflation of 4% and average inflation in 1998 was around 1%. In 1993 the average budget deficit reached 5.5% in the 11 states, but at the end of 1997 it was reduced to 2.5%. By January 1, 1999 the final preparation for the ECB/ESCB was the adoption of secondary legislation (capital subscription collection of statistical data, reserves, fines and penalties) and bringing the ECB/ESCB running.

The date of January 1, 1999 marked the beginning of the third stage, which began with the irrevocable fixing of exchange rates and entry into force of the legislation on introduction of the Euro (legal status, continuity of contracts, rounding numbers, etc.).

Also on January 1, 1999 the settlement with national banks began to be made in Euros. The settlement will be operated throughout the Euro with TARGET (Trans European Automated Real Time Gross Settlement Express Transfer), creating a modern European global settlement, unconditionally and irrevocably transfers nature. With the start of the third stage of EMU were held and issues of bonds and shares in Euro.

Between 1 January 1999 to 1 January 2002 took place in the Euro exchange of fixed exchange rates Member States using irrevocable and monitored the impact of changes to the financial and banking system. European institutions have provided assistance for the Member States economies.

Between January 1 and July 1, 2002 circulation of euro banknotes and coins are withdrawn and national, not later than July 1, 2002 must be annulled legal movement of currencies and have completed the necessary changes in national administrations and the Community. These terms were ”maximum” therefore the proposed changes can take place earlier.

Global economic crisis has ruined all the predictions. Thus, in a globalized world where financial instruments move in the banking system without boundaries, any destabilization of the system travels at light speed.

The world economic crisis crossed the ocean to Europe much faster than the previous global crisis and European banking systems have been discovered before the cash ran out of the economic effects generated by the crisis.

Euro area on 1 January 2009

Slovakia adopted the euro on January 1, 2009 after it joined the EU in 2004, the fourth of the new enlarged EU member states adopting the euro, after Slovenia, the former Yugoslav republic which joined the euro in 2007, followed by Cyprus and Malta on 1 January 2008. Slovakia has a huge opportunity to introduce the euro „in this unfortunate period of economic and financial crisis”.

The European Commission found that Slovakia has met all the Maastricht Treaty criteria for euro adoption. Inflation is 2.2%, well below the threshold of 3%.

The euro area has, since January 1, 2009, 16 countries with 323 million people, by joining a new country, Slovakia. It is a momentous event not only for that country but for all Europe, since on 1 January 2009 there are 10 years since the official launch of the euro. (1999).

After more than three years after joining the EU, Slovenia is the first country in the bloc of 10 new Member States to meet the convergence criteria for euro adoption under the TEU.

From January 1, 2007, the national currency – tolar – was replaced by the European currency; Slovenia became the 13th European country that officially adopted the euro.

Since 2011, 17 Member States of the European Union use the euro as official currency, namely Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland.

However 10 Member States are not part of the Euro zone, namely: Bulgaria, Czech Republic, Denmark, Latvia, Lithuania, Hungary, Poland, Romania, Sweden and the UK.

Huge external deficits for the EU and euro area

The current account deficit of the European Union was close to 200 billion in 2008, and the euro area stood no better: the 16 countries that use the single currency has imported 61.2 billion euros more than they exported 2007.

In the last three months of 2008, the current account deficit of the 27 EU countries was 21 billion euros (EU27), compared with 14.2 billion during the same period of 2007. In the third quarter, the current account deficit was 60.8 billion, according to provisional results from the Eurostat data. Regarding the euro area, the external deficit in the fourth quarter was 14.6 billion euros.

Proponents argue that the euro single currency would have prevented the collapse of financial markets of some Member States with less advanced economies, whose national currencies were perceived as weak by the market. Consider the statement only partially true because the devaluation of national currencies, which is no longer possible after the introduction of the euro, these savings could easily offset the balance of payments and thus combat the effects of the crisis.

Stability and Growth Pact-summary

The pact is crucial for the credibility of the euro area and is intended to ensure that fiscal policies of Member States support, not undermine, monetary policy. Therefore, the ECB has a very high interest to the Covenant and criticized its reform in 2005.

The pact proved less effective than the Maastricht convergence criteria to ensure fiscal discipline for the simple reason that the convergence criteria were supported by the sanction of exclusion from membership of the EMU, therefore, Italy and other countries have tried very hard to resolve tax issues in 1996-1997.

However, after accession fiscal performance evolved divergently, not convergently.

Some Member States, particularly small ones, were very disciplined, for example, Austria, Belgium and Finland. Big states like France, Germany and Italy have repeatedly violated the limits.

The pact takes over the convergence criteria on deficits of 3% of GDP and public debt of 60% of GDP and identifies as a central objective of tax positions „close to balance or in surplus" over an economic cycle and deficits within 3%. They are designed to provide debt relief to 60%. However, it has been prepared based on the rates negotiated between the growth in the Maastricht Treaty.

Since then, the nominal growth rates decreased. Consequently, deficits would be lower to achieve the required objective. For countries like Greece and Italy, with huge levels of debt would require permanent surpluses.

However, they have deficits above 3%. Accordingly, in certain segments of the euro area there is a chronic fiscal problem. The nominal growth rates lower, and France and Germany rather than reduce the debt accumulates.

In September 2003, the pact entered into crisis when France and Germany persuaded the ECOFIN to stop the excessive deficit procedure by the Commission wished to enforce them. This blow to the authority of the Commission was a blow to the credibility of the Pact.

It was revised by the Summit of 22 to 23 March 2005 to allow more exemptions „temporarilyy", a lax approach to economic conditions that would allow a higher deficit and to extend the period during which states must correct deficits. There were some improvements.

There was a greater emphasis on a pact „pro-cyclical", there will be more pressure to reduce debt in periods of economic expansion. Also, countries with debt levels below 60% were given greater flexibility in terms of deficits.

To grow stronger after the debt criterion. This meant that Italy was becoming a key test of the credibility of the reformed Pact. If Italy were able to avoid the excessive deficit procedure, the new Covenant and would lose all credibility. EU should apply a more differentiated approach to fiscal surveillance, targeting states with the biggest debts.

However widened with the advent of the global financial crisis, requiring changes in economic and monetary policies of Member States both euro area and the states outside the euro area.

Stability and Growth Pact, the sanctioning procedure for Member States that have violated the Maastricht criteria

To achieve the long term (sustainable) EU objective of achieving economic stability and to reduce the risk of inflationary pressures within the EU, using two instruments:

1) stability and Growth Pact, which includes budgetary discipline;

2) supervision and multilateral coordination of economic policies, including tax.

Stability and Growth Pact requires Member States of the Euro in strict compliance with budgetary rules on budget deficits and public debt levels.

Violations of these rules will state that they support the sanctions imposed for breach of EU recommendations to prevent or correct excessive budget deficits.

Stability and Growth Pact, except for an excess of over 3% of GDP budget deficit is allowed in two situations:

1) it is caused by something unforeseeable, beyond the control of the Member State;

2) the result of an economic drop severe that at least 2%, calculated on the actual level of GDP.

Stability and Growth Pact sanctioning procedure

Procedure for sanctioning Member States that have an excessive budget deficit, imposed by the Council of Ministers of Finance and Economy are:

* Issue a recommendation by the State concerned to correct the excessive deficit, the application within four months.

* If within a period corrective measures are not taken, the Council makes public its recommendation.

* If after one month effective corrective measures are not taken, the Council shall notify the Member State to take appropriate action.

* In two months, Council may decide on sanctions, if the State continues to be „insensitive” to the measures recommended.

The procedure can be accelerated if the excessive deficit situation deliberately planned to apply the sanction. Penalties:

1) Member State is obliged to lodge a deposit of interest to the European Commission unworn.

2) The deposit is converted into a fine if the Member State does not correct the excessive deficit after two years. (The imposition of deposit)

Deposit size = - 0.2% of GDP (fixed component) + one tenth of the difference between the deficit as a percentage of GDP this year it was described as excessive, and the reference value of 3% of GDP (the variable component).

This penalty may be enhanced by the formation of new deposits. The total size of the deposits made by a Member State may not exceed 0.5% of GDP.

Council may terminate the sanctions if the Member State has corrected this deficiency. Penalty imposed cannot be undone. Interest on deposits and revenues from fines are distributed to Member States without excessive deficits, in proportion to their share of their combined GDP.

Conclusions

If in normal economic conditions there were situations in which Member States violated the provisions of the pact, it is not surprising that in conditions of economic crisis these conditions are violated in practice by almost all Member States, which led to a rethinking of their economic and monetary policies, but has generated a standstill while the euro area enlargement.

All forecasts made by experts were overthrown by the harsh reality of the global economic crisis, which makes it almost impossible to meet the Maastricht convergence criteria in terms of budget deficit and inflation.

However, it is preferable that a state that doesn't meets the requirements of the Maastricht Treaty regarding the accession to the Eurozone to postpone the time of euro adoption, as any decision taken without the support of economic policy and financial imbalances, the risk of producing large state domestic market, but also to destabilize the entire Euro zone.

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