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MINISTRY OF EDUCATION,  
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UNIVERSITY  
OF DEFENCE

INVESTMENTS IN EDUCATION DEVELOPMENT

Course: World Economy

## Contents

The aim of the lecture is to describe the Economic and Monetary Union in the EU. Text is an overview of information resources for students (including links to official sources and supplement materials (green box)).

### Content:

- 1) introduction – history of the EMU
- 2) Pros and Cons of the single currency
- 3) Convergence Criterium

It is possible to distinguish four basic periods characterizing the origins and development of monetary integration. The first period can be termed as a period of intergovernmental cooperation, and dates in the period 1958-1970. In this period, monetary policy in each country were coordinated within the framework of the functioning of the Bretton Woods monetary system.

- <http://revue.kpol.ff.ucm.sk/archiv/2005/3/svobodova.pdf>

The second period can be termed as a period of closer cooperation in 1971-1990, during which it is possible point out for important milestones:

- 07/1978 of the European Council summit in Bremen – establishment of the European monetary system
- 06/1988, the Committee of experts (headed by the President of the European Commission Jacques Delors)
- October 7, 1970, was published **The Werner report**

*The Werner group submitted its final report in October 1970, setting out a three stage process to achieve EMU within a ten-year period. The final objective would be the irreversible convertibility of currencies, free movement of capital, and the permanent locking of exchange rates – or possibly a single currency. To achieve this, the report called for closer economic policy coordination, with interest rates and management of reserves decided at*

*Community level, as well as agreed frameworks for national budgetary policies<sup>1</sup>.*

#### Werner Report

[http://aei.pitt.edu/1002/1/monetary\\_werner\\_final.pdf](http://aei.pitt.edu/1002/1/monetary_werner_final.pdf)

#### Introduction to EMU

<http://www.ecb.europa.eu/ecb/educational/movies/html/index.cs.html>

Of the reasons for the failure of "snake in the tunnel" and the need to stabilize exchange rates, Commission President Roy Jenkins in October 1978, **a new project of the European monetary system (EMS)**, which began work on March 13. March 1979. The project was based on agreements between the national central banks. Part of the primary EC law has become in the year 1987 with the approval of the single European Act.

<http://www.ecb.europa.eu/ecb/educational/movies/html/index.cs.html>

The Euro is the single currency of the European Monetary Union.

Since 1 January 1999, it adopted the 12 Member States: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and Finland. January 2001: Greece, 2007 Slovenia, 2008, Malta, Cyprus, 2009 Slovakia, 2011, Estonia, 2014 Latvia

The name euro was chosen by the heads of State and Government at the Lisbon European Council in Madrid in December 1995. An exception from the introduction of the euro have negotiated the United Kingdom and Denmark the Swedes rejected the euro in a referendum in September 2003.

[http://www.cnb.cz/cs/verejnost/pro\\_media/clanky\\_rozhovory/media\\_2008/cl\\_08\\_080922a.html](http://www.cnb.cz/cs/verejnost/pro_media/clanky_rozhovory/media_2008/cl_08_080922a.html)

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<sup>1</sup> [http://ec.europa.eu/economy\\_finance/euro/emu/road/werner\\_report\\_en.htm](http://ec.europa.eu/economy_finance/euro/emu/road/werner_report_en.htm)

Robert Mundell laid the theoretical foundations for the European Monetary Union (Theory of optimal currency area)<sup>2</sup>

A summary of the life and works of Prof. Mundell

[http://www.cnb.cz/cs/verejnost/pro\\_media/clanky\\_rozhovory/media\\_2012/cl\\_12\\_121024\\_tomsik\\_cep.html](http://www.cnb.cz/cs/verejnost/pro_media/clanky_rozhovory/media_2012/cl_12_121024_tomsik_cep.html)

Robert Mundell and the Theoretical Foundation for the European Monetary Union

<http://www.imf.org/external/np/vc/1999/121399.HTM>

The introduction of the single currency strategy — documents the convergence program – evaluation of the convergence criteria

[http://www.zavedenieura.cz/cps/rde/xbcr/euro/Vyhodnoceni\\_Maastricht\\_2012\\_pdf](http://www.zavedenieura.cz/cps/rde/xbcr/euro/Vyhodnoceni_Maastricht_2012_pdf)

The General conclusion lies in the suitability to adopt the single currency at the time when the benefits will outweigh the potential costs.

The direct benefits of the introduction of the euro:

- stability exchange rate risk (here mention and remind students of the issue of open economies, to define the exchange rate revaluation of the currency depreciation vs. appreciation of the exchange rate)
- reduction of the transaction costs — financial costs, administrative costs
- lower costs of capital procurement
- greater price transparency-comparability of prices,

The direct costs of the introduction of the euro:

- the loss of autonomous monetary policy

The euro convergence criteria (also known as the Maastricht criteria) are the criteria which European Union member states are required to meet to enter the third stage of

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<sup>2</sup> <http://www.imf.org/external/np/vc/1999/121399.HTM>

the Economic and Monetary Union (EMU) and adopt the euro as their currency. The four main criteria, which actually comprise five criteria as the "fiscal criterion" consist of both a "debt criterion" and a "deficit criterion", are based on Article 140 (ex article 121.1) of the Treaty on the Functioning of the European Union. Full EMU membership is only open to EU member states. However, the European microstates of Andorra, Monaco, San Marino and the Vatican City, which due to their small size are not members of EU, have signed monetary agreements with EU which allow them officially to adopt the euro and issue their own variant of euro coins. These states had all previously used one of the eurozone currencies replaced by the euro, or a currency pegged to one of them. These states are not members of the eurozone and do not get a seat in the European Central Bank (ECB) or the Eurogroup.

As part of the EU treaty, all of the EU Member States are obliged to adhere to the Stability and Growth Pact (SGP), which as a framework to ensure price stability and fiscal responsibility, has adopted identical limits for governments budget deficit and debt as the convergence criteria.

1. **HICP inflation (12-months average of yearly rates):** *Shall be no more than 1.5% higher, than the unweighted arithmetic average of the similar HICP inflation rates in the 3 EU member states with the lowest HICP inflation.*
2. **Government budget deficit:** *The ratio of the annual general government deficit relative to gross domestic product (GDP) at market prices, must not exceed 3% at the end of the preceding fiscal year.*
3. **Government debt-to-GDP ratio:** *The ratio of gross government debt (measured at its nominal value outstanding at the end of the year and consolidated between and within the sectors of general government) relative to GDP at market prices, must not exceed 60% at the end of the preceding fiscal year.*
4. **Exchange rate:** *Applicant countries should have joined the exchange-rate mechanism (ERM / ERM II) under the European Monetary System (EMS) for two consecutive years, and should not have devalued its currency during the last two years, meaning that the country shall have succeeded to keep its monetary exchange-rate within a  $\pm 15\%$  range from an unchanged central rate.*

5. **Long-term interest rates (average yields for 10yr government bonds in the past year):** *Shall be no more than 2.0% higher, than the unweighted arithmetic average of the similar 10-year government bond yields in the 3 EU member states with the lowest HICP inflation*<sup>3</sup>

LACINA, Lubor a Petr ROZMAHEL. Euro: ano-ne?. 1. vyd. Praha: Alfa Nakladatelství, 2010, 319 s. ISBN 978-80-87197-26-4.

SYCHRA, Zdeněk. Jednotná evropská měna: realizace hospodářské a měnové unie v EU. 1. vyd. Brno: Masarykova univerzita, Mezinárodní politologický ústav, 2009, 291 s. ISBN 978-80-210-5082-2.

KÖNIG, Petr; LACINA, Lubor; PŘENOSIL, Jan. Učebnice evropské integrace. 2. vyd. Brno : Barrister & Principal, 2007. 402 s. ISBN 978-80-7364-044-6.

Phase 1: the Werner Report. [online]. 2014 [cit. 2014-11-11]. Dostupné z: [http://ec.europa.eu/economy\\_finance/euro/emu/road/werner\\_report\\_en.htm](http://ec.europa.eu/economy_finance/euro/emu/road/werner_report_en.htm)

Introducing the Euro: convergence criteria. [online]. 2014 [cit. 2014-11-11]. Dostupné z: [http://europa.eu/legislation\\_summaries/other/l25014\\_en.htm](http://europa.eu/legislation_summaries/other/l25014_en.htm)

Robert Mundell and the Theoretical Foundation for the European Monetary Union. [online]. 2014 [cit. 2014-11-11]. Dostupné z: <http://www.imf.org/external/np/vc/1999/121399.HTM>

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<sup>3</sup> [http://europa.eu/legislation\\_summaries/other/l25014\\_en.htm](http://europa.eu/legislation_summaries/other/l25014_en.htm)