Filip Křepelka, *Masarykova univerzita* (krepelka@law.muni.cz)

Course: <u>Introduction to the European Union Law</u>

[9] Euro – the single EU currency, budget of the EC / EU

<u>Pre-Euro history</u>

Important European countries and the USA had „gold standard“ in the 19th century.

Banknotes issued by national banks entitled to exchange for fixed amount of gold or silver by these banks held in their reserves. This system provided for fixed exchange rates among these European / American currencies.

The gold standard was weaker after the 1st world war. Many European countries states / their banks issued exceed amount of banknotes and guaranted change for gold has been stopped by national laws.

Only several states continued gold standard of their currencies, other attempted to do it (including Czechoslovakia).

Since the 2nd world war, the Brettonwood was international law – based system of stabilisation of currency. It used U.S. dollar which was convertible to gold by fixed rate and fixed exchange rates for other currencies. Imbalancies were bridged by loans of the International Monetary Fund.

Stabilized exchange rates contributed to the development of international trade.

The system collapsed in 1971, the U.S. suspended legally convertibility of its currency to gold (and its price increased quickly many times).

Since the collapse of the system, exchange rates are not stabilized. Lability of exchange rates increased transaction costs (it is necessary to create reserves for sudden changes of rates for enterprises and states).

Therefore, intensively integrated European Communities and its Member States decided to establish the European system of exchange rates, based on mutual obligation of central banks to intervene for fixed rates.

ECU (the European Currency Unit) was basket of currencies (1979) used as neutral account unit of the European Communities for management of common agricultural policy.

<u>The introduction of Euro</u>

The Maastricht Treaty provided legal base for introduction of single currency. Every member state (with exception of so-called „opt-out“ states: the United Kingdom, Denmark, unoficially Sweden) is expected and required to introduce the single currency.

Member States were/are required to meet several – sometime severe - criteria:

(1) Independent national central bank
(2) Exchange rate stability (two years within fixed limits)
(3) Low inflation (not more than 1.5% higher than the most successful three countries)
(4) Convergence of interest rates (within 2% range)
(5) Budget deficit less than 3% GCP (definition of public budgets necessary)

(6) Public doubt less than 60% GCP.

However, these criteria have not been enforced rigorously. It 1998, the European Council decided on the issue. Only Greece was blocked to enter the „Eurozone, other failing Member States were admitted. Greece joined fraudulently later).

All new Member States are expected to introduce the Euro in next five years (2007-2011). The above mentioned criteria are enforced more rigorously.

Qualification phase: 1993-1998: the Maastricht criteria should be met

Introduction phase: 1999-2001 (Member States currencies ceased to exist from legal point of view. Nevertheless, their coins and banknotes represented temoporarily Euro. Immaterial Euro was introduced instead of them. Fixed conversion rates were established by regulation nr. 2866/98.

Hot phase of Euro: first months of 2002, Euro notes and coins were introduced (banknotes are uniform for all Member States, coins have national reverse side).

Banknotes and coins of the Member States elder currencies were quickly withdrawn. However, it is and it will be possible to exchange them in national central banks.

All payments established by laws, decisions and contracts were converted to Euro. The introduction cannot cause frustration of any obligation to pay.

Pros and cons of the single currency

Many politicians regard the single currency as tool for closer integration of the Member States (currency as symbol of statehood).

However, the most important aim of the single currency is stable environment for interstate commerce.

The single currency removes permanently transaction and exchange-rate fluctuation costs: it reduced prices slightly (however, nobody recognised it, people realized particular rises in prices instead of it)

The single currency creates greater transparency of prices for goods and services, wages and profits. It contributes to integration of capital markets.

Single currency requires single administration. However the European Central Bank can set only single monetary policy and is uncapable to meet different needs of member states economies (Is the Eurozone optimal monetary area?)

Institutions for common monetary policy

The European Central Bank (Frankfurt/Main, Germany) is part of federal system of central banks of the Member States.

These central banks have not ceased to exist, they have become part of the European System of Central Banks. The key decision-making body is the ECB Coucil. It includes the ECB president, members of the board of directors and the governors of Eurozone national central banks. The ECB and national central banks are independent. Central banks of member states without Euro retain their independence, they are partially involved in the policy of the ECB.

The most important principle governing monetary policy is stable currency (low inflation). Secondary task are high employment and exchange rate stability are secondary.

The ECB uses similar tools for steering of the currency as other central banks do: money mass management (expansion and reduction).

Euro notes are issued by the ECB, euro (and euro-cent) coins are issued by national central banks.

EC/EU Budget

The European Communities and the European Union are no (federal) state. They do not take care for many state tasks.

They have no army, no police, the vast majority of EC law is administered by the Member States.

The EC/EU do not contribute significantly to welfare statepolicies: social security, healthcare or education.

Therefore the EC/EU has limited budget (approx 1% of GDP of EU 25, 117 bilion Euro in 2005), especially if compared with the Member States (30-50% GDP).

There are no proper European taxes, only custom duties (imposed on imports from non-member states) are transferred to EC/EU budget.

Other sources are contributions of the Member States based on their GDP, part of VAT and agricultural levies.

Main EC budget expenses are: (1) administrative expenses, (2) agricultural policy, (3) regional policy and cohesion, (4) contribution to research, (5) humanitarian aid.

Budget proceedings include the Commission (proposal), the Council and the European Parliament (with strong position). There are fixed deadlines for particular steps. The Court of Auditors checks use of European money.

EC/EU budget is closely connected with state budgets, various compensations are agreed.