‘The Fifteen agree on single currency discipline' from Le Monde (15 December 1996)

Caption: On 15 December 1996, the French daily newspaper Le Monde outlines the outcome of the Dublin European Council held on 13 and 14 December, with particular regard to the establishment of a Stability and Growth Pact for the future countries of the euro zone.

Source: Le Monde. dir. de publ. Colombani, Jean-Marie. 15-16.12.1996, n° 16 139; 52e année. Paris: Le Monde. "Les Quinze s'entendent sur la discipline de la monnaie unique", auteur:Lemaître, Philippe; De Bresson, Henri , p. 2.

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The Fifteen agree on single currency discipline

Following over ten hours of bitter debate, on Friday 13 December in Dublin the EU Finance Ministers adopted a 'stability' pact that will act as a framework for the public finances of the States participating in Economic and Monetary Union.

DUBLIN
from our special correspondents

Ruairi Quinn, the Irish Finance Minister and President of the 'Ecofin' Council, and Yves-Thibault de Silguy, Commissioner for Economic and Monetary Affairs, were clearly pleased to announce on the afternoon of Friday 13 December that the Fifteen had reached agreement on the arrangements for the budgetary 'stability pact', which, as of 1 January 1999, will be binding on those countries taking part in the euro. The last outstanding issues from the previous morning had been resolved, thus making the virtual compromise a fully-fledged political agreement.

This opened the way for three documents dealing with the management of the euro. The one concerning the euro's legal status makes it clear that, as of 1 January 1999, the euro will become the only legal currency in those countries that will have qualified (in March 1998) to move to the third stage of Economic and Monetary Union. It guarantees the continuity of contracts, which means that it provides the necessary safeguards to those holding accounts payable in ecus or in any of the European currencies that are to be replaced by the euro.

The second deals with the setting up, from 1 January 1999, of a new European Monetary System (EMS) between the 'euro zone' and the 'pre-in' countries, which will not as yet take part in the single currency, either because they do not meet the criteria under the treaty (the convergence criteria) or, in the case of the two countries with an exemption clause (Great Britain and Denmark), because they prefer to postpone their own changeover to the single currency. The new EMS, which the French were very keen to have, seeks to ensure monetary stability within the Union as a whole.

The third is the 'stability pact' itself, hankered after by the Germans and a safeguard against any temptation to follow a lax budgetary policy which could threaten the solidity of the euro. At the request of Jacques Chirac it will henceforth be referred to as the *stability and growth pact*. Everyone agreed that this was a good idea, that it was not a trick but a way of convincing the public that providing a code of conduct, chosen by all and imposed by no one, would give the undertaking a more solid base. As Mr de Silguy emphasised, 'The pact is the guarantee that the euro will be properly managed and that there will be low interest rates, which is good for growth and employment.'

The compromise

The aim of the pact is to provide a framework for euro countries' budgetary policy, with the medium-term goal of balancing public finances and the short-term objective of keeping deficits below 3 % of GDP. If this level is exceeded, the pact allows for penalties that could take the form of steep fines if no action is taken quickly to rectify the mistakes. It will be possible to cross this red line of 3 % and not incur penalties in the event of 'exceptional and temporary circumstances', meaning primarily in the event of a severe recession. How is this to be defined? It is this point that has been the subject of debate for the past six weeks.

The Germans, supported to some extent by the Dutch, are arguing for a narrow definition (a 2 % annual drop in economic activity would represent exceptional circumstances and there would be no penalty; with a drop of less than 2 %, there would be no exceptional circumstances, so penalties would apply). Thus the dissuasive mechanism of penalties would operate as automatically as possible.

Most of the other Member States, led by France, who want to have more flexibility, favour a political approach on a case-by-case basis. During the night of Thursday to Friday, the Finance Ministers, with some difficulty, reached agreement on the outline of a compromise. Put simply, a recession of more than 1.5 %

per annum equals exceptional circumstances (with no penalties). In the case of a recession of between 0.75 % and 1.5 % of GDP per annum there would be a political assessment and debate in the Council and Commission. Any drop in activity of less than 0.75 % would lead to penalties.

When work resumed on Friday it soon became clear that everyone had a different take on the compromise agreement. The Germans were saying that what mattered were the figures in the agreement, which restricted and limited the Council's scope for discretion. According to the French, however, that scope was fully retained.

These conflicting noises had to be silenced if what had been achieved with so much difficulty a few hours earlier was not to be jeopardised. Jacques Chirac, Helmut Kohl and John Bruton, the Irish Prime Minister, tasked Jean-Claude Juncker, Luxembourg's Prime Minister and Finance Minister (a member of both Ecofin and the European Council) to mediate between Jean Arthuis and Theo Waigel, the French and German Finance Ministers. The Luxembourg Prime Minister, skilled, well-briefed and appreciated by all (he will be presiding over the European Council in the second half of 1997), apparently encountered some difficulty in getting everyone to agree to a text that was less open to conflicting interpretations! However, there was no doubting the will to succeed, and this final negotiation was completed within a reasonable timeframe. The scenario envisaged is that of a euro-zone country that allows its public finance deficit to go above 3 %. If there is a recession of more than 2 % over one year, no penalties will be imposed. In the event of a recession of less than 2 %, the Commission will report to the Council to see if there were exceptional circumstances that might justify exemption from penalties. But, in principle, it is only in the case of a recession of between 0.75 % and 2 % of GDP that such an exemption would be allowed.

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