

EUROPE - 3

Economic and social framework of European integration **Social and economic development and the challenges of globalisation**

A – THE MAASTRICHT TREATY AND THE ECONOMIC PARAMETERS

The **Maastricht Treaty**, signed in the Dutch city of Maastricht in December 1991, renamed the EC the EU and committed it to further progress in two main areas. The first was monetary union. Under the treaty, the existing European currencies would be abolished and replaced by the euro. A European Central Bank would be created to take over the functions of states' central banks. The second main goal of Maastricht was political and military integration. The treaty commits European states to work toward a common foreign policy with a goal of eventually establishing a joint military force.

The Maastricht Summit resulted in the adoption of a 'Political union', called the "European Union" and in a series of amendments to the EEC Treaty (renamed into EC Treaty) leading to the creation of an '**Economic and Monetary Union**' (EMU)

Maastricht outlines 5 parameters:

- 1) Respect limits of currency fluctuation established in the treaty for at least two years with no artificial attempts to devalue national currency
- 2) Inflation cannot rise more than 1.5% above the average of the three States with the lowest inflation rates
- 3) Public Deficit to be kept below the 3% threshold of GDP
- 4) Total public debt cannot exceed the reference value of 60% of GDP
- 5) Long term interest rates cannot be higher than 2% above the three countries with the lowest interest rates

The Treaty states that the monetary criteria must be respected in full while financial criteria regarding trade deficit and budget deficit are subject to less stringent sanctions.

B – THE STABILITY AND GROWTH PACT

The objective of the stability and growth pact is to prevent the occurrence of an excessive budgetary deficit in the euro area after the entry into force of the third stage of economic and monetary union (EMU).

With a view to coordinating their economic and financial situations, the Member States in the euro area present a stability programme containing medium-term public accounting objectives that are updated each year. The Member States outside the euro area draw up 'convergence' programmes. These programmes serve as a basis for multilateral surveillance within the Council. Any fiscal slippage may therefore form the subject matter of a Council recommendation, which may be made public.

This procedure is triggered if a Member State exceeds the public deficit criterion, which is set at 3% of gross domestic product (GDP). The Regulation on this procedure specifies the technical details and gives practical definitions, while a second Regulation concerns actual implementation: time limits, conditions, exceptions and sanctions, including those of a financial nature, which might be applied to the Member State in question. If the existence of an excessive deficit is established by the Council, it issues recommendations to the Member State concerned calling on it to take steps to put an end to the excessive deficit. If the Member State does not comply with these recommendations or does not take steps to remedy the situation, the Council may impose sanctions on it, initially in the form of a non-interest-bearing deposit with the Community. The deposit will, as a rule, be converted into a fine if, within the next two years, the excessive deficit has not been corrected.

Following the recent economic crisis, the limits imposed on member states by the Pact for Stability have been too heavy handed and are now being questioned.