

**MONETARY AND FISCAL POLICY CO-OPERATION:
INSTITUTIONS AND PROCEDURES IN EMU**

by

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Abstract

The article analyses the effect of the move to EMU on the procedures through which co-operation between authorities in charge of budgetary and monetary policy takes place. The first section examines the situation prior to EMU in the member countries on the basis of a questionnaire concerning the modalities of the formal or informal dialogue between the National Central Banks and the Treasuries. The second section takes into consideration the current situation, based on the experience acquired in the first year of EMU and against the provisions of the Treaty. The comparison between the two situations suggests that something has been lost in the move to EMU and that there is scope for further improving the dialogue and co-operation between budgetary and monetary authorities in EMU. Some suggestions are then proposed in order to bring the current euro area situation closer to the one prevailing in most countries prior to EMU.

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Introduction

The issue of co-operation between monetary and fiscal policy has been examined in the literature mainly in the framework of game theory.¹ Co-operative solutions lead to better outcomes for all players under specific conditions, in particular concerning the exchange of information between the players. The absence of co-operation may lead to struggles and inconsistent policies.² Co-operative games can take place if players are able to commit themselves to binding agreements before executing their strategies. Co-operative games are nevertheless difficult to implement between monetary and fiscal authorities when the latter are independent and might not be willing to pre-commit to undesired policies.³ The literature has thus analysed pre-commitment strategies that may enable to safeguard independence while allowing for co-operation. One element of this strategy is to attribute clear objectives to the monetary and fiscal authorities. Price stability is generally the primary objective of monetary policy. It is more difficult to devise a comparably clear objective for fiscal authorities, although some kind of fiscal rule is present in all countries.⁴

In the EMU, the problem of co-ordination between fiscal and monetary authorities is further complicated by the rather unique relationship between one European monetary authority and several national fiscal authorities, which have in turn a problem of co-ordination between themselves.⁵

As most things in Europe, the issue of co-operation has been approached mainly in legalistic terms. The Resolution of the European Council of 13 December 1997, in Luxembourg, defines the procedure by which the co-ordination of the members states' economic policies is conducted in Stage 3 of EMU, and how the ECB and the Council should dialogue. No explicit mention is made of the co-ordination between monetary and budgetary policies. This has been clarified in the report of the Council of Finance Ministers to the Helsinki European Council, which states that the ECB cannot engage in ex-ante co-ordination because this could jeopardise its ability to achieve its primary objective. In

¹ See Blackburn and Christiansen (1989) for a review article.

² See Blinder (1982) for the problems of co-ordination and Sargent and Wallace (1981) for the implications on the consistency of policies.

³ See Persson and Tabellini (1995).

⁴ In Germany, the golden rule of public finance which requires a balanced budget, net of public investments, in normal times. In EMU, national budgets are subject to the excessive deficit procedure and to the Stability and Growth Pact, which requires balanced budget over the medium term.

⁵ See Wyplosz (1998).

summary, co-ordination is to be implemented mainly through dialogue between the council of Ministers and the ECB.

This paper examines how the dialogue between the main institutions involved in the EMU, i.e. the Council of finance Ministers and the ECB, is organised. The question we ask is whether the existing structure is adequate to enable the exchange of information which is required for achieving better co-operative outcomes.

How can we assess whether the exchange of information is appropriate? Two main benchmarks can be used: the Treaty provisions and national practices existing prior to EMU.

In confronting the EMU situation with the one existing in the member states before EMU, we want to compare: i) the exchange of information between the ECB and the Council of Finance Ministers after 1999 and; ii) the exchange of information between the National Central Bank and the Finance Minister prior to EMU. The main reasons for such a comparison are provided in Section 2.

The work is organised as follows. The first section examines the situation prior to EMU in the member countries. The second section analyses the current situation, based on the experience acquired in the first few months of EMU and against the provisions contained in the Treaty. We then compare the two situations with a view to assess whether something has been gained or lost in the move to EMU, whether there are duplications or inefficiencies in the procedure underlying policy co-ordination. We also dare making few proposals for consideration with a view to improve on the current situation.

1. Policy co-ordination prior to EMU

In this section we examine the way in which authorities in charge of budgetary and monetary policy conducted their dialogue prior to EMU.

1.1 The methodology

We collected information on the way in which the dialogue between the National Central Bank and the Treasury took place before EMU in the member states. The information covers five broad areas: i) monitoring of domestic economic and financial developments; ii) monitoring of international financial conditions; iii) macroeconomic forecasts; iv) definition of macroeconomic objectives; v) information on policy changes.

We prepared a questionnaire on the modalities, frequency and format of the dialogue taking place between the two institutions. In particular, we enquired about the level at which the dialogue took place, for instance between the Minister and the Governor directly or between the respective staff; whether the meetings were formalised or took place in an informal way; the frequency of the meetings; the broad issues discussed and the type of information exchanged.

The type of questions asked is very simple, to enable comparison and aggregation of the answers. This is the inevitable cost of such an exercise, which can thus not fully take into account national institutional specificities. Further analysis is therefore required.

A further caveat concerns the status of independence between the Central bank and the Finance Ministry which might have differed across countries before EMU, thereby making the comparison difficult. However, the independence of the Central bank was granted in most countries well before 1999. In accordance with Article 109 (ex 108) of the Treaty, member states were obliged to eliminate incompatibilities between their national legislation, including the Statutes of their NCB, and the Treaty, by the date of establishment of the ESCB. The questionnaire was filled in late 1998 or early 1999, by 13 countries,⁶ based on practices prevailing just before EMU. The level of independence of the various NCBs considered in the exercise can thus be considered as broadly comparable to that of the ECB.

⁶ Only Greece and Luxembourg did not respond, the latter answer being in any case not relevant.

1.2 The results

Tables 1 to 5 report the answers received by the 13 countries. Occasionally, the number of answers add up to more than 13 since more than one answer was possible.

Table 1 contains the results concerning the exchange of information on domestic economic conditions. It emerges that in all countries regular exchanges of views took place between the Finance Ministry and the Central bank. They occurred largely on an informal basis but in some cases also in a formal manner. High level staff was always involved; in a majority of cases also the Minister and the Governor directly. In the majority of countries, discussions on domestic economic conditions took place with irregular frequency. In 6 countries information was exchanged within specific working groups or task forces, on the basis of background documents often prepared by the Central bank.

The procedure for the monitoring of international financial markets was relatively similar to the previous ones (table 2). Only in one country, the Finance Ministry and the Central bank appear to have never exchanged views on such matters. The channels of communication were in general rather informal, on an ad-hoc basis, as expected for such delicate issues. Differently than on the domestic side, monthly meetings were regularly held in 9 countries to survey financial market developments.

In 10 countries, the Finance Ministry produced directly the forecasts (table 3). In 6 cases the Central bank contributed to the preparatory discussions and to the ex-post evaluation of the forecasts. The discussions took place mainly among high level and junior staff. In 3 countries, the Minister and Governor were directly involved.

Concerning the definition of macroeconomic objectives, the Central bank was involved in 3 countries, 2 of which in euro area countries with traditionally independent Central banks (table 4). In all but one country, the discussions took place on an informal level but nearly always involving directly the Governor and the Minister. The discussion also entailed an ex-post assessment of the achievement of the objective.

Concerning information on policy changes decided by the Central bank, the Finance Minister was informed beforehand in 7 countries, as far as interest rate changes are concerned and in 5 countries for foreign exchange interventions (table 5). The questionnaire did not ask how far in advance the information was provided.

Overall, the picture that emerges from this survey is one of intense and frequent dialogue between the Central bank and the Finance Ministry, often at a high level and on a broad range of issues. We presume that the exchange of information and the dialogue, independently of the issue, have taken place in full respect of each other's statutory independence and have not infringed the respective reputations. This presumption is not based on the data collected, given that we have not asked a specific question on this point. As far as we know, the existence of fora for dialogue has not infringed the independence of any of the institutions involved. We also presume, based on our starting assumption, that such meetings and exchange of views were useful and have made a positive contribution to the performance of each other's tasks.

2. Policy co-ordination in the first year of EMU

2.1 The legal framework in EMU

The EC Treaty, the secondary legislation and the conclusions of the European Council provide the legal and political framework within which the dialogue between the Finance Ministers of the euro area and ESCB may take place.⁷

Article 111 (ex 109) of the Treaty concerns the co-operation between EU Council and ECB in the conclusion of formal agreements on exchange-rate system and the formulation of general orientations for exchange-rate policy.⁸

The Luxembourg European Council (December 1997) stated that:

⁷ See, on the legal and institutional environment of EMU, Andenas, Gormley, Hadjiemmanuil and Harden (1997), Beaumont and Walker (1999), Begg (1997), Buiters (1999), Issing (1999), Everson (1999), Louis (1998), Smits (1997), Walker (1996) and Weatherhill and Beaumont (1995).

⁸ Article 111 (ex 109), par. 1 and 2:

“1. By way of derogation from Article 228, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the procedure in paragraph 3 for determining the arrangements, conclude formal agreements on an exchange rate system for the ECU in relation to non-Community currencies. The Council may, acting by a qualified majority on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the central rates of the ECU within the exchange rate system. The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the ECU central rates.

2. In the absence of an exchange rate system in relation to one or more non-Community currencies as referred to in paragraph 1, the Council, acting by a qualified majority either on a recommendation from the Commission and after consulting the ECB or on a recommendation from the ECB, may formulate general orientations for exchange-

“The organization of an ongoing and fruitful dialogue between the Council and the European Central Bank, respecting the independence of the Bank, is an important factor in the proper functioning of Economic and Monetary Union”.

Furthermore, the Cologne European Council (June 1999) stated that:

“To the European Council, a macro-economic dialogue in which representatives of the Council, the Commission, the European Central Bank and the social partners participate is an effective way to approach implementing the growth- and stability-oriented macro-economic policy forming part of the broad economic policy guidelines as pursued by the member states and the Community”

and that:

“The European Council takes the view that, to make a lasting success of economic and monetary union, there will need to be enhanced and appropriate policy coordination as well as dialogue with both sides of industry and with the European Central Bank... In the euro area the enhanced dialogue in the Euro 11 Group will also contribute to achieving a more balanced policy mix”.

The macroeconomic dialogue (the “Cologne process”) aims at co-ordinating fiscal policy, monetary policy and wage developments to foster growth in employment. The preparation of the macroeconomic dialogue at technical level can represent a useful channel of communication between fiscal and monetary authorities.

The President of the Ecofin Council may participate in the meeting of the Governing Council of the ECB and may submit a motion for deliberation. This “mutual participation” is established by Article 113 (ex Article 109b) of the Treaty.⁹ This is the most important

rate policy in relation to these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.”

⁹ Article 113 (ex 109b):

“ 1. The President of the Council and a member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the ECB. The President of the Council may submit a motion for deliberation to the Governing Council of the ECB.

2. The President of the ECB shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.

3. The ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council.

occasion for implementing the dialogue between the Council and the European Central Bank. Using the words of the European Council of Luxembourg (December 1997):

“The Council should therefore play its full part in exploiting the channels of communication provided by the Treaty. The President of the Council, using his position under Article 109b of the Treaty, should report to the Governing Council of the ECB on the Council's assessment of the economic situation of the Union and on economic policies of the member states and could discuss with the ECB the views of the Council on exchange-rate developments and prospects.”

The Treaty envisages an active role for the President of the Council. He may influence the agenda of the ECB Governing Council. He does not have, of course, the right to vote but may certainly take part in the discussion and present his views on the course of monetary policy or on other items on the agenda. The President of the Council may express his opinion (and, consequently, the opinion of the Council) on the various matters under discussion. In practice, this provision is not implemented as the Presidency participates in such meetings only once every six months. No real dialogue with Finance Ministers seems to take place at the meetings of the ECB Governing Council, contrarily to what was suggested in the 1997 European Council Conclusions.

The President of the ECB is invited to participate in Ecofin Council meetings when the Council discusses matters relating to the objectives and tasks of the ECB. Although the participation of the President of the ECB is of a slightly different nature than that of the President of the Ecofin in the ECB Governing Council (the former has to be invited, cannot submit a motion and his participation is limited only to the meetings “*when the Council discusses matters relating to the objectives and tasks of the ECB*”), it represents a further occasion for the dialogue between the two authorities. In practice, the ECB is always invited to participate in the meetings of the Euro-11.

The participation of the President of the Council to the ECB meetings should enable the EU Governments to be informed on the decisions taken by the ECB concerning, for example, the official interest rates changes, foreign exchange interventions or other

The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis.

The President of the ECB and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent Committees of the European Parliament.”

measures regarding the competence of the Eurosystem. It should enable to inform the ECB Governing Council of the views expressed by the Council on matters of its competence.

The Euro-11, created for developing the informal discussions between the Finance ministers of the member states adopting the euro, the ECB and the European Commission, actually represents the most important forum for dialogue and for discussion on macro-economic items in the euro area.¹⁰ The delegations are restricted to two participants per country, plus the ECB and the Commission, and discussions are more informal than in the Ecofin Council.¹¹ The Euro-11 usually takes place in the early morning of the same day of the Ecofin Council (before the formal Ecofin session). Over Ecofin lunches, the 15 Finance Ministers are debriefed on the discussion of the Euro-11 meeting. Normally, the Euro-11 regime of confidentiality and informality allows for a frank discussion about the economic situation, which is rather difficult to achieve during the regular Ecofin sessions.

Another important forum for discussion is the Economic and Financial Committee, established by Article 114(2) (ex Article 109c) of the Treaty.¹² Article 2 of its Statute states that such Committee should provide the framework within which the dialogue between the Council and the European Central Bank can be prepared and continued at the level of

¹⁰ Point 44 of the Conclusions of the European Council of Luxembourg (December 1997) states that:
“The Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank when appropriate, will be invited to take part in the meetings. Whenever matters of common interest are concerned they will be discussed by Ministers of all member states. Decisions will in all cases be taken by the ECOFIN Council in accordance with the procedures laid down in the Treaty.”

¹¹ Muet and Pisani-Ferry (1999) note that “the Euro-11 group is still very much a collection of national policy players (plus the ECB and the Commission), who lacks a detailed vision of the economic situation in Euroland as a whole” and that one solution would be the preparation of an “annual report on the economic and budgetary situation in Euroland as a whole that would be presented to the European Parliament and that national governments would forward to their national parliaments together with the national draft budgets”.

¹² Article 114(2) (ex109c):
*“2. At the start of the third stage, and Economic and Financial Committee shall be set up. The Monetary Committee provided for in paragraph 1 shall be dissolved.
The Economic and Financial Committee shall have the following tasks:
- to deliver opinions at the request of the Council or of the Commission, or on its own initiative for submission to those institutions;
- to keep under review the economic and financial situation of the member states and of the Community and to report regularly thereon to the Council and to the Commission, in particular on financial relations with third countries and international institutions;
- without prejudice to Article 151, to contribute to the preparation of the work of the Council referred to in Article 73f, 73g, 103(2), (3),(4) and (5), 103a, 104a, 104b, 104c, 105(6), 105a(2), 106(5) and (6), 109, 109h, 109i(2) and (3), 109k(2), 109l(4) and (5), and to carry out other advisory and preparatory tasks assigned to it by the Council;
- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of this Treaty and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Commission shall report to the Commission and to the Council on the outcome of this examination.
The member states, the Commission and the ECB shall each appoint no more than two members of the Committee.”*

Ministries, National Central banks, Commission and ECB senior officials.¹³ The EFC has the task to “*keep under review the economic and financial situation of the member states and of the Community and to report regularly thereon to the Council and to the Commission, in particular on financial relations with third countries and international institutions*”. It is composed of two members appointed by the European Commission, two members by the ECB and two by each member state. Given that the members appointed by the member states are one from the Finance Ministry and one from the NCB, the EFC, brings together senior officials from the National Central banks and the ECB as well as from Finance Ministries, and thus represents the natural place where the dialogue between fiscal and monetary authorities may take place. The Economic Policy Committee, which is composed by Finance Ministers and national Central banks senior officials, could represent a further useful forum for discussion and dialogue, mainly on structural issues.¹⁴

2.2 The pre-EMU co-ordination system is not sufficient

The move to EMU has changed the picture described in Section 1. Member states participating in the single currency have transferred their monetary policy competencies to the supra-national level, the Eurosystem, which has the responsibility of conducting the single monetary policy for the euro area.¹⁵ On the other hand, member states have retained

¹³ This role has been underlined in the Conclusions of the European Council of Luxembourg (December 1997). In addition, see the Conclusions of the European Council of Helsinki (December 1999), point 32: “*Cooperation related to the shared responsibilities for the single currency should be further developed within Euro 11, respecting the conclusions of the December 1997 Luxembourg European Council.*”

¹⁴ Representatives from other administrations, e.g. Social Affairs Ministries, also participate.

¹⁵ The European System of central Banks (ESCB) is composed of the ECB and the 15 national central Banks (NCBs). The NCBs of the member states which are not participating in the euro area are, however, members of the ESCB with a special status: they do not take part in the decisions regarding the single monetary policy for the euro area and the implementation of such decisions, while they are allowed to conduct their national monetary policies. For the sake of transparency, the ECB Governing Council has decided to make a distinction between the “Eurosystem and the ESCB. There are currently 11 national central Banks in the Eurosystem: if and when all 15 member states participate in the euro area, the term Eurosystem will become a synonym for the ESCB. The Eurosystem is governed by the Governing Council and the Executive Board of the ECB. The Governing Council comprises the members of the Executive Board and the governors of the National Central Banks of the member states which have adopted the euro. The Executive Board comprises the President, the Vice-President and four other members appointed by the Heads of State or Government of the member states which have adopted the euro. The ESCB is composed of the ECB and the national central Banks of all 15 member states. The ESCB is governed by the Governing Council, the Executive Board and the General Council, that comprises the President, the Vice-President and the governors of all 15 national central Banks. Normally, the Governing Council act by a simple majority (in some cases, for example the increase of the ECB capital, the votes are weighted). The Executive Board decides by simple majority. The Governing Council formulates the monetary policy of the Community, including decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB. The

the right to decide their own fiscal policies, within the limits established by the disciplinary provisions of the Treaty concerning government debt and deficits (Excessive Deficit Procedure) and subject to the principle of co-ordination (multilateral surveillance). Moreover, the Stability and Growth Pact uses the instrument of multilateral surveillance to reinforce the Excessive Deficit Procedure.¹⁶ This change in the allocation of responsibilities between national and supra-national authorities has an impact on the dialogue between the authorities in charge of fiscal and monetary policies.

The dialogue described in tables 1-5 may not have changed much within the member countries. The Finance Minister and Central Bank Governors probably continue to see each other, if they did so before. Most national working groups, formal or informal gatherings of the Finance Minister and the national Central bank officers, have probably not stopped meeting after the start of Monetary Union. The staff of the Ministry of Finance and of the Central Bank may continue to be in contact in a regular, formal or informal, way. This does not infringe the principle of independence. The Treaty does not forbid such exchange of views.¹⁷ However, the substance and relevance of the discussion has changed because the authority with which each of the interlocutors expresses his views has changed. To take an example, the authority with which each Central Bank Governor expresses his views about monetary policy has changed: on the one hand, each Governor is now competent for monetary policy over the whole EMU; on the other hand, he can ex-ante express only his personal view, which is one out of seventeen members of the ECB Governing Council. Decisions are taken by the ECB Governing Council in a way that cannot always be anticipated. To have a broad picture about the various elements contributing to the single monetary policy decisions in the euro area, one should speak with several ECB council members. Maybe only the President of the ECB can give a broad view of the opinion of the ECB Governing Council. In order to reproduce the same type of exchange that took place before EMU, the ECB President should then be speaking to all Finance Ministers, to

Executive Board implements the monetary policy in accordance with the guidelines and decisions adopted by the Governing Council.

¹⁶ See in particular Harden (1999). About the Stability Pact, see Beetsma and Uhlig (1997) and Eichengreen and Wyplosz (1998)

¹⁷ As noted by Wyplosz (1999): "the more independent is the central bank the easier is to conduct true negotiations with political authorities". See even the very interesting proposals about a better policy mix (the joint conduct of fiscal and monetary policy) negotiation between ESCB and governments.

provide them with the relevant information, or on the occasion of the Council of EU Ministers.

Although Finance Ministers have largely kept their authority over national budgetary policies, the latter are bound by the Stability and Growth Pact. Furthermore, on the exchange rate policy of the euro the competence of Finance Ministers is shared within the Euro-11 group. Each Finance Minister can thus provide limited information about fiscal and economic policy in the euro area. This information could be provided only by an aggregation of all national budgetary policies. This suggests that the information content of the institutional dialogue prevailing at national level before EMU has largely vanished. For the above reasons, the relevant comparison is not between the dialogue that takes place before and after EMU within member states at the European level. EMU has indeed produced a change in regime. The integrity of the monetary system, which was at the national level before EMU, has been transferred to the European level in EMU. The relevant comparison is thus between the situation prevailing in EMU and that in the member states prior to EMU.

2.3 Implementing co-ordination at EMU level

The purpose of this section is to examine the mechanisms for dialogue currently existing at the European level and to assess whether they “match” the situation prevailing within member countries before EMU. We thus try to examine the situation prevailing in the euro area for the 5 main questions considered in the previous section.

Concerning the monitoring of the economic conditions in the euro area, exchanges of views between the ECB and the Euro-11 Finance Ministers generally take place once a month, on the occasion of Euro-11 meetings. These meetings are organised by the Presidency, occasionally with the support of background material prepared by the Commission.

Exchanges of views also take place within the EFC, which also meets with a monthly frequency, although the latter is not restricted to the euro area only. The “tour d’horizon” on major economic developments takes place occasionally, on the basis of ad-hoc material and statistical data prepared by the Commission. More substantial discussions take place at the time of the examination of the Stability Programmes and the Broad Economic Guidelines.

No technical group meets, in a formal or informal way, to discuss and monitor in a systematic way euro area economic and financial developments.

Another forum where economic conditions in the euro area are regularly discussed is the ECB Governing Council, which meets every fortnight. However, as already noted above, the Presidency seldom participates in such meetings and there is no reporting from the Presidency to the members of the Euro-11. For this first type of exchange of information, the existing European mechanisms appear to be rather weak and not organised in a systematic way. Only during the Euro-11 is there the possibility of some exchange of views between the ECB and Finance Ministers.

Foreign exchange markets are occasionally in the Euro-11 or the EFC. There is however no specific technical group in charge of preparing the discussions on financial and foreign exchange markets. The EFC generally prepares G7 meetings or discussions. The chairman of the EFC and representatives of the Council Presidency and of the ECB coordinate the dialogue between the various institutions.

Concerning macroeconomic forecasts, the ECB participates in the exercises conducted by the Commission twice a year. The input provided is yet unclear as the internal ECB forecasting procedure is under review. Furthermore, the ECB forecasts are not made public nor discussed, even informally, with the Commission or representatives from Finance Ministries.

The ECB does not participate actively in ex-post discussions on forecasts, at none of the levels at which they use to take place nationally.

Concerning the formulation of policy objectives, the ECB contributes actively to the discussion on Stability Programmes and on the Broad Economic Policy Guidelines,¹⁸ within the EFC, the Euro-11 and Ecofin. It actively contributes to the opinion expressed by the

¹⁸ Stability Programmes are presented by the participating member states (non-participating member states present Convergence Programmes). They are intended to prevent the occurrence of excessive deficits and to promote the surveillance and co-ordination of economic policies, according to Regulation 1466/97, and are updated annually. Stability programmes must present information on the medium-term budgetary objective, the main assumptions about expected economic developments and economic variables relevant to the realisation of the programme (such as investment expenditure GDP growth, employment and inflation), the budgetary and other measures being taken or proposed to achieve the objectives of the programme. The information about the budgetary situation and the main economic assumptions must be on an annual basis: they must cover the current and the preceding year, as well as the following three years. The Broad Economic Policy Guidelines (or “Broad Guidelines of the Economic Policies of the member states and the Community”) are based on Article 99 of the Treaty. They have a central role in the multilateral surveillance procedure. They should represent an effective instrument for ensuring the co-ordination of the economic policies of the member states. They are normally divided in two parts: the general economic policy guidelines and the country-specific economic policy guidelines.

Council on these programmes and guidelines, and thus on the exercise of peer-pressure that takes place through these instruments. The ECB also participates in the ex-post discussion about the achievement of the objectives, assessing possible deviations and the corrective measures to be taken. The Council of Ministers is instead only informed ex-post by the ECB of any decision, or discussion, related to the monetary policy strategy or to specific decisions.

3. A comparison between pre and post EMU

The description of the EMU situation has to be considered with care given the little experience so far and the ongoing developments. The following considerations should thus be seen as tentative.

First, the ECB participates extensively in the discussions taking place at the European level about the budgetary policies of the member States, in addition to the NCBs, to an extent greater than that experienced by several NCBs before EMU. This participation takes place both at the technical and political level, at the Ecofin and EFC. This is certainly a positive development as it enables the ECB to be fully informed about budgetary developments and forecasts, and to take monetary policy decisions with a forward looking view. It also gives the possibility to the ECB to formulate its criticisms concerning the objectives or the implementation of budgetary policies of the member states.

The reverse relationship is much less intense. The Council of Ministers does not participate to ECB Council meetings nor is informed about their deliberations.¹⁹ The Council of Ministers is also not informed about the forecasts or predictions concerning the main issues in the field of responsibility of the ECB, such as inflation.

Second, the exchange of views on euro area economic and monetary conditions at the European level in EMU seems to be more formalistic and less intense than the one prevailing prior to EMU within Member States. The flow of information takes place mainly through the formal channel of existing groupings (EFC, Ecofin, Euro-11) but not at regular

¹⁹ See Chapter 6 of Bini Smaghi and Gros (2000) for the issue of publication of the minutes.

intervals. At the technical level there is little exchange of views, both on current economic developments and on forecasts.

Third, the lacunae are largest concerning financial and foreign exchange issues. The sensitivity of the questions discussed would suggest that preference should be given to informal rather than formal contacts. The former seem however difficult to organise within the European context. This may be one of the reasons of the apparent nuances of views expressed at times on developments of the euro exchange rate among Finance Ministers and also among ECB Council Members. This creates uncertainty in financial markets about the governance of the euro area.

To summarise, the degree of dialogue and co-operation between budgetary and monetary authorities prevailing in EMU seems to be inferior than the one existing within most countries before EMU.

There are certainly reasons for this result. One is the difficulty to organise the dialogue and exchange of views within a large group of participants, especially when market sensitive issues are being discussed. Another reason may be the fear, within the new institutional context, of a threat to the independence of the relative institutions. Some time may be necessary to diffuse such fear and to improve trust among the institutions. For sure, the result is that the conduct of monetary and budgetary policies by the respective competent authorities in the euro area is made more difficult than it was in the past within the member countries.

4. Conclusions and proposals

The considerations developed in the previous sections suggest that policy coordination in the EMU is not as intense as it was prior to EMU within individual countries between the fiscal and monetary authorities. Something is still missing. It is difficult to quantify this “something”. What emerges from the analysis of the previous section is that the exchange of information is still insufficient. This should be of concern because it may lead the various institutions to sub-optimal decisions. It is thus appropriate to consider ways to improve the dialogue that takes place at the European level between Finance Ministers and the Eurosystem.

We put forward a few proposals to stimulate the discussion. The underlying assumption for these proposals is that the current institutional framework does not need to be changed. No amendment to the Treaty is required. No new institution needs to be created. It is possible to achieve an intensity in dialogue and in exchange of information between the European fiscal and monetary authorities comparable to the one prevailing before EMU within the member states by just implementing better the existing Treaty provisions and through a better functioning of the current mechanisms.

A first proposal is to implement fully Article 113 (ex 109b) of the Treaty in order to make the Ecofin Presidency attend regularly, for instance on a monthly basis, the meetings of the ECB Governing Council and discuss relevant issues for the EU economy. The EU Presidency would report on the outcome of the discussion to the members of Euro-11. The latter would clearly be bound by confidentiality. This procedure should not be seen as infringing the independence of the ECB. It would entail a change compared to the practice followed by the EMI or the Bundesbank. However, this more frequent dialogue would compensate for other lacunae at the European level compared in particular with the situation prevailing in Germany prior to EMU.

A second proposal is that issues related to financial markets developments are regularly discussed at the technical level, in addition to the EFC, the Ecofin and the Euro-11 meetings, as was the case in several countries before the EMU. Given the already heavy agenda of the EFC, regular technical discussions should be undertaken by an ad-hoc group on financial markets that would be based on background notes prepared by the Commission and the ECB. The establishment of this group seems in line with Article 114.2 of the Treaty (concerning the EFC). This procedure was implemented by the Committee of Governors and the EMI Council, which discussed financial issues on the basis of a report by the chairman of a monitoring group that had previously met to address technical issues. This would enable the development of a common framework of analysis of financial markets between officials from the Finance Ministries and the Central banks, that would facilitate the understanding of market developments, especially under stress.

A third proposal would be that the Euro-11 discusses regularly the forecasts produced by the EU Commission and the ECB, on the basis of the preparatory work conducted by the EFC and if needed, other technical groups. This would require a more frequent forecasting

exercise by the Commission and the ECB. It also requires that the ECB makes its forecasts public, as announced by its President.

The above are few simple suggestions with a view to bringing the current degree of co-operation between fiscal and monetary policies in the euro area closer to the one prevailing in most countries prior to EMU. They are put forward with a view to stimulating the discussion on ways to improve the dialogue and thus effectiveness of monetary and budgetary policies.

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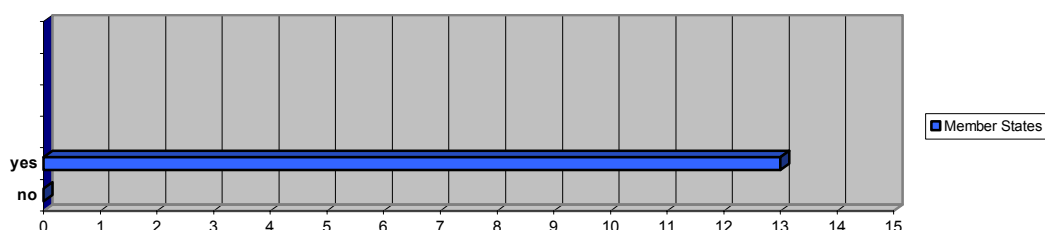
ANNEX

QUESTIONNAIRE

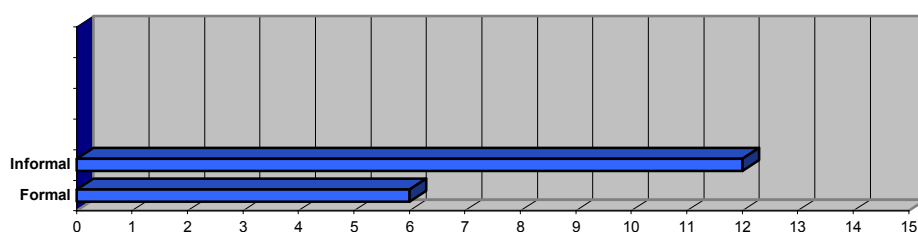
(Member States)

1. Monitoring of the domestic economic conditions

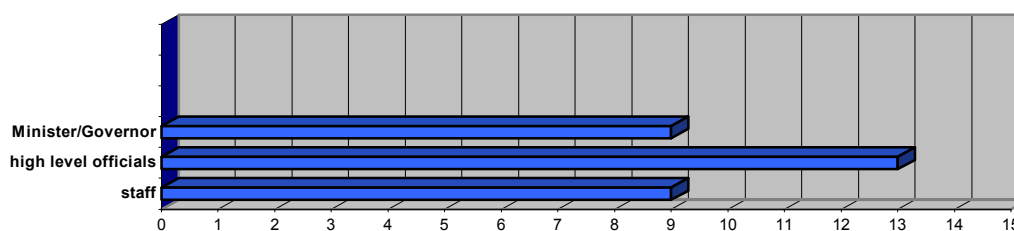
1.1. Are there regular discussions or exchanges of views between the Finance Ministry and the NCB on the state of the economy?



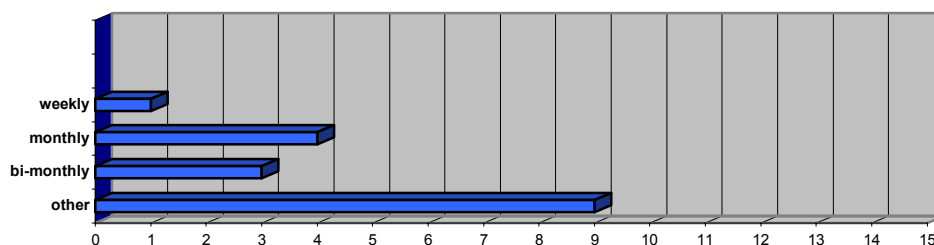
1.2. Do they take place mainly through official channels or through informal way?



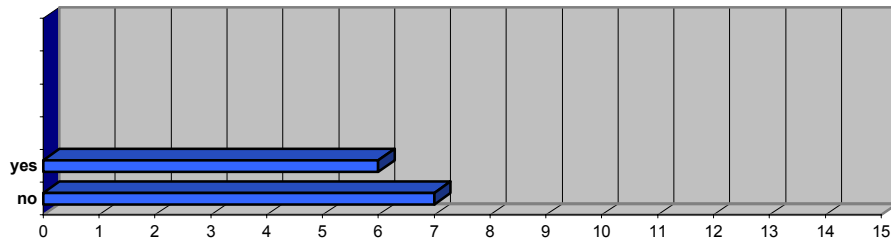
1.3. At what level do they take place?



1.4. What is the frequency of such exchanges of views?

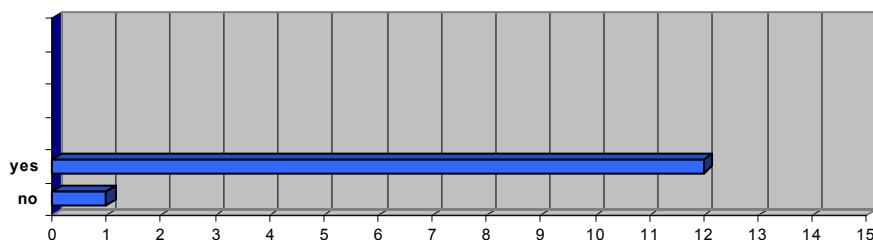


1.5. Are there working groups, task forces or other fora where such exchanges of views take place?

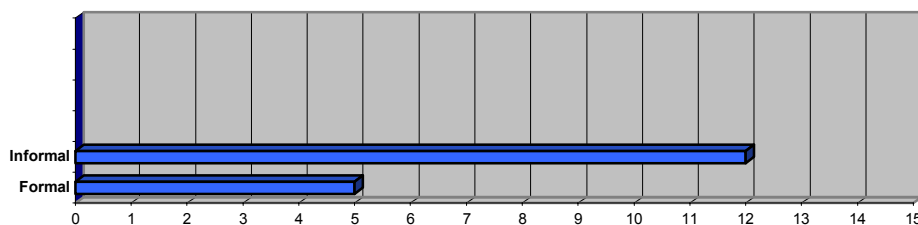


2. Monitoring of the international financial markets

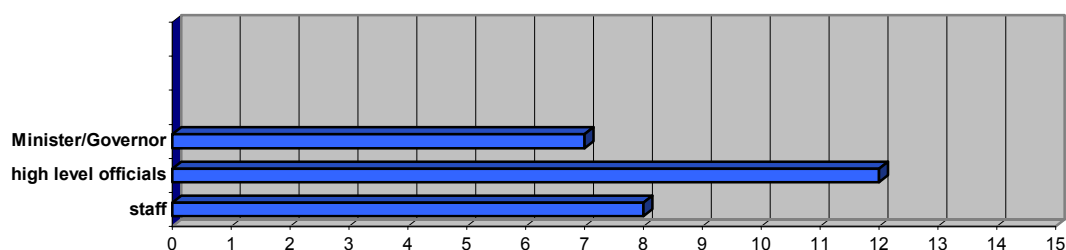
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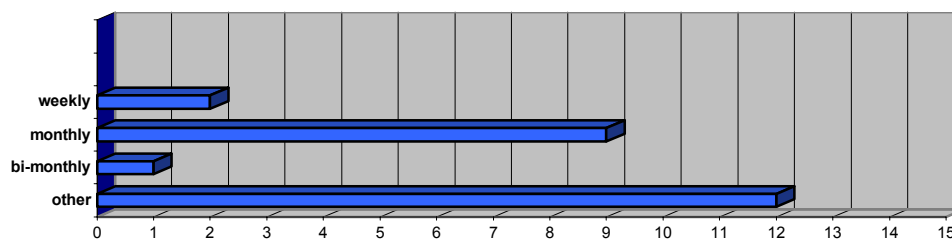
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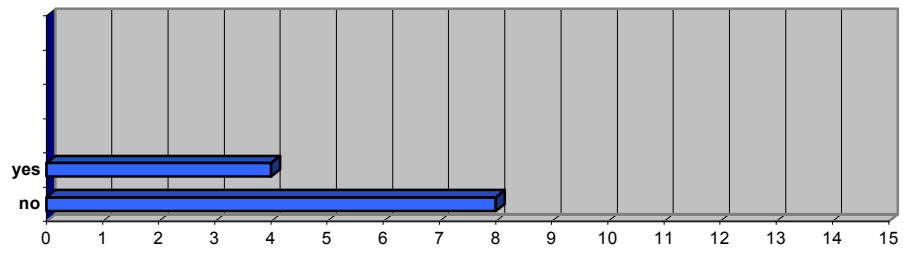
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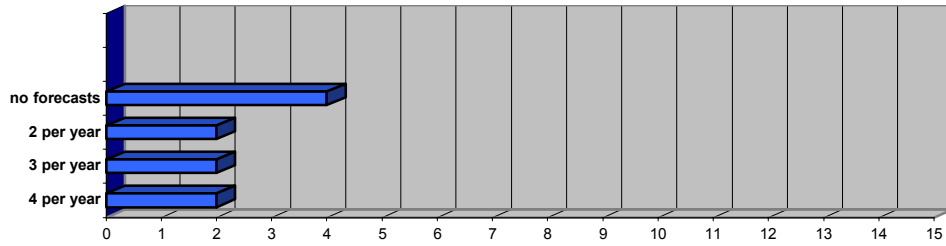


2.5. Are there working groups or task forces that deal with such monitoring?

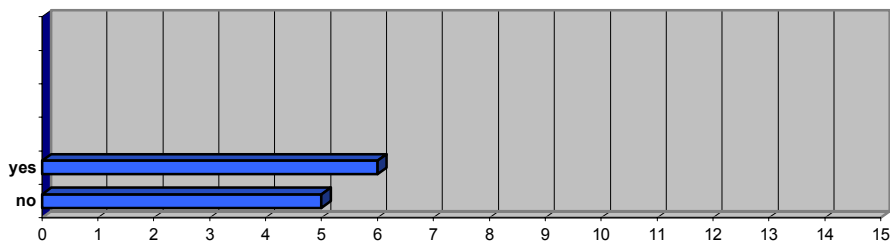


3. Macroeconomic forecasts

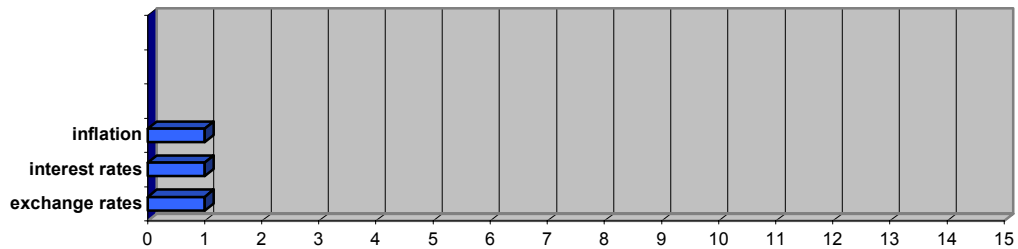
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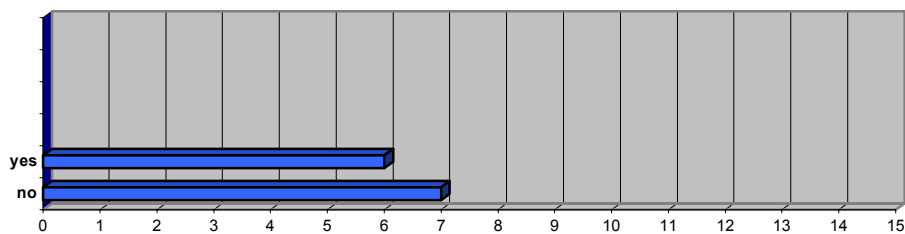
3.2. Does the Central Bank contribute to the discussion leading to the Ministry macroeconomic forecasts?



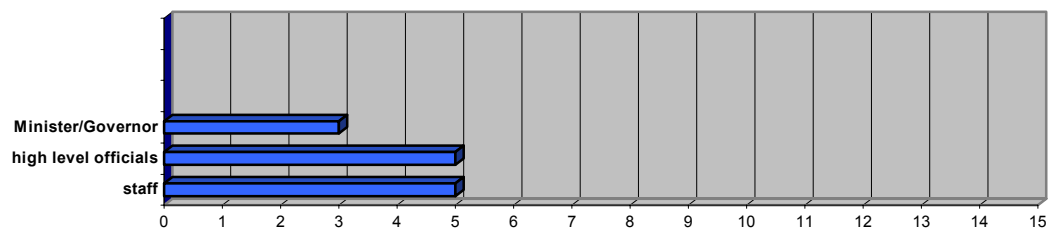
3.3. If yes, does the Central Bank provide an input on:



3.4. Is there a discussion ex-post on the macroeconomic results with respect to the forecasts?

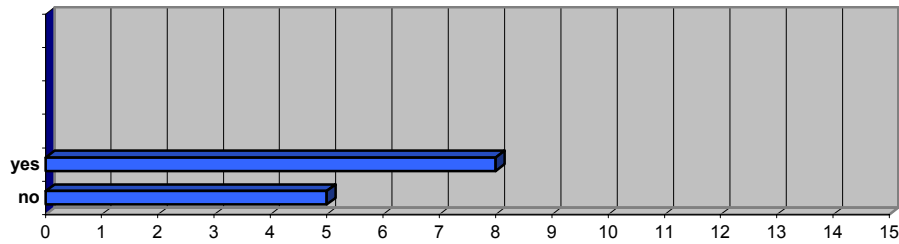


3.5. At what level does the discussion take place?

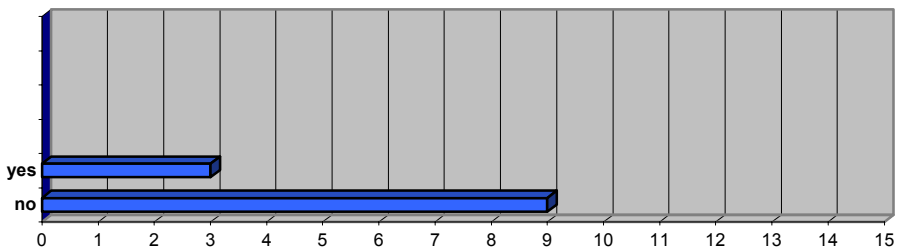


4. Macroeconomic Objectives

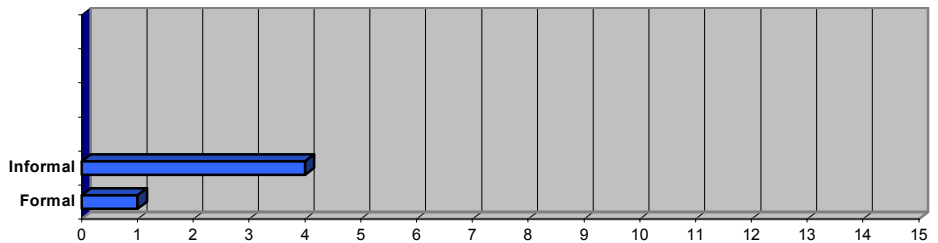
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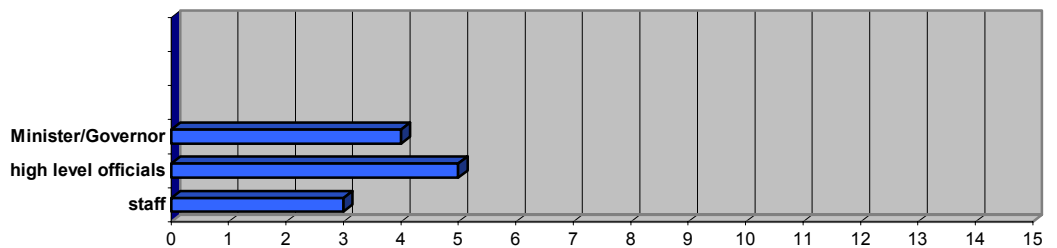
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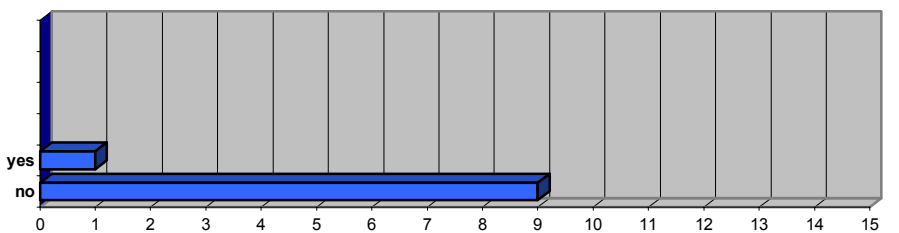
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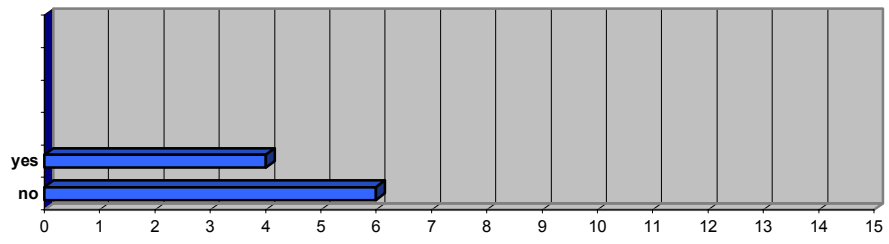
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4.6. Are there working groups or task forces that deal with such items?

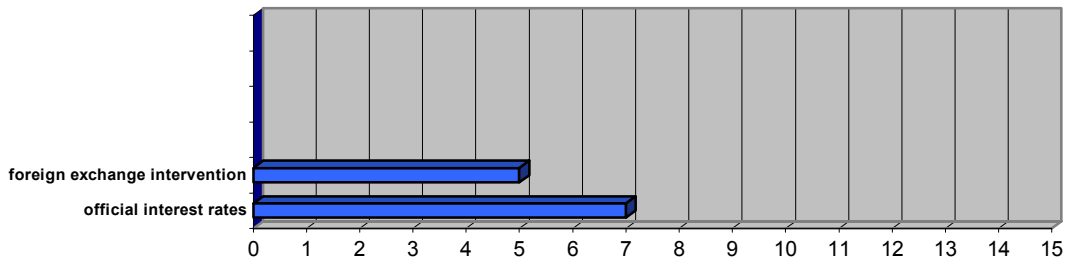


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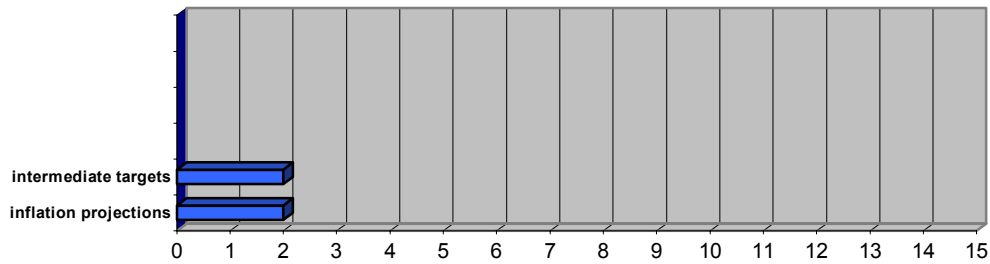


5. Information on policy changes

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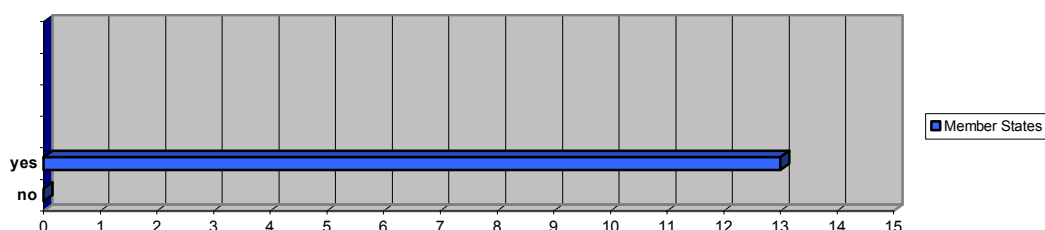
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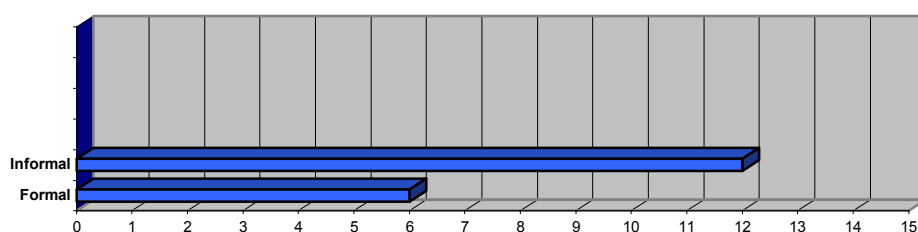
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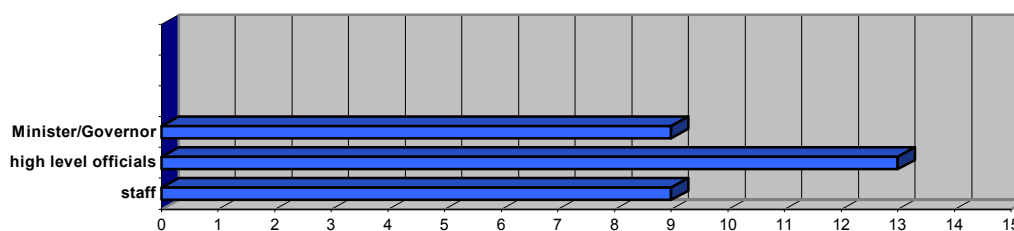
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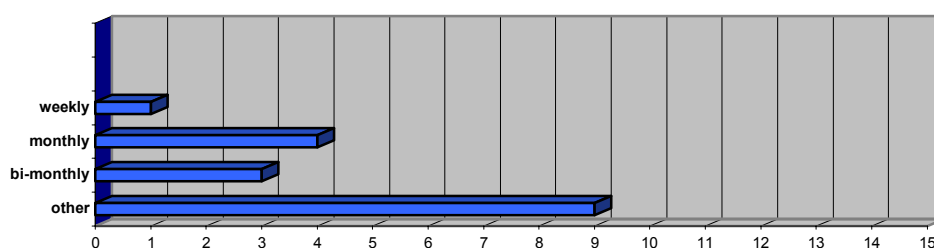
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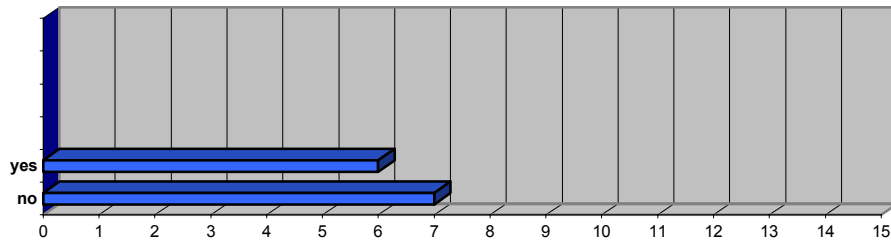
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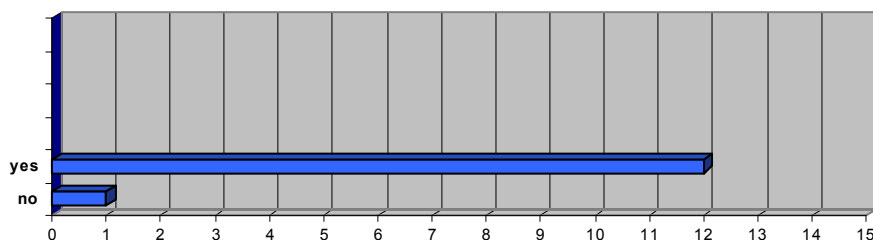


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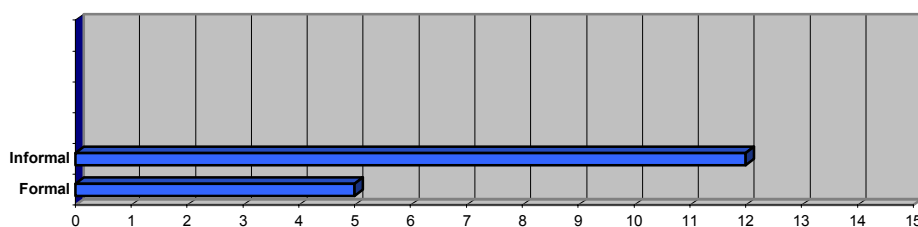


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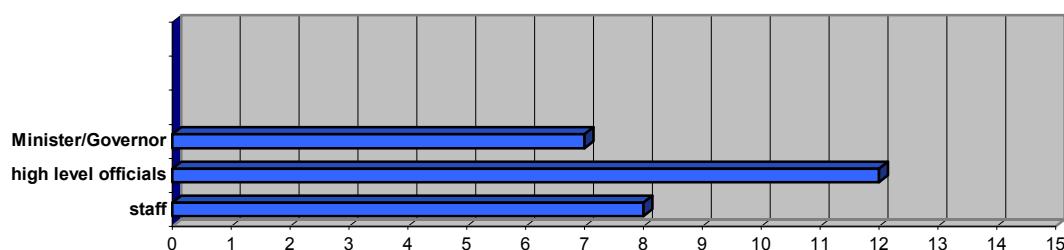
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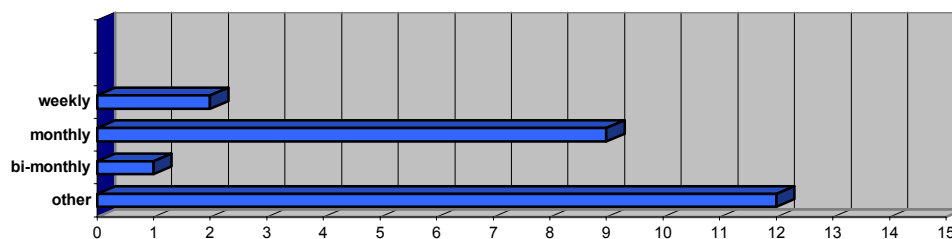
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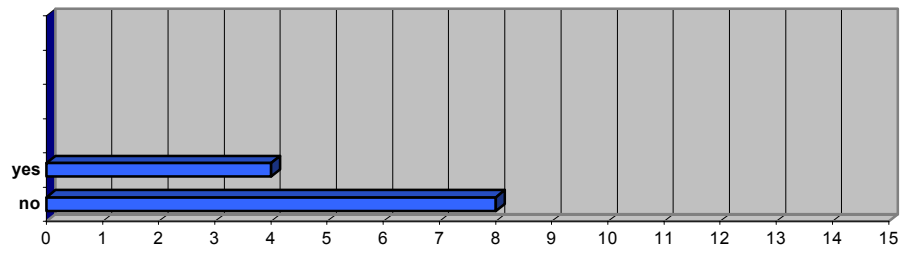
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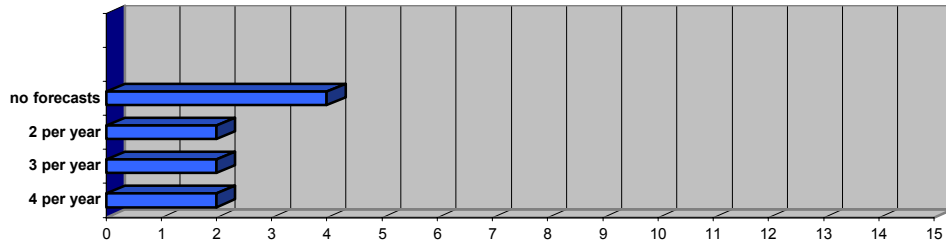


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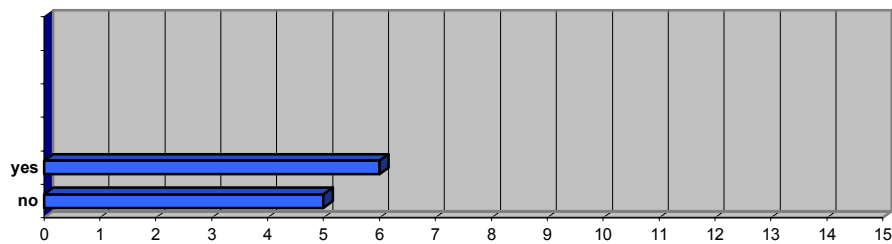


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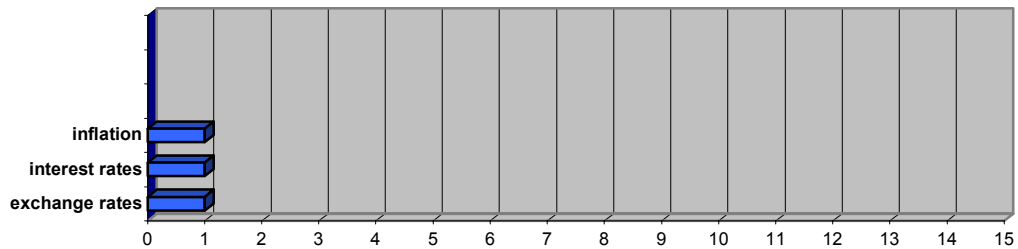
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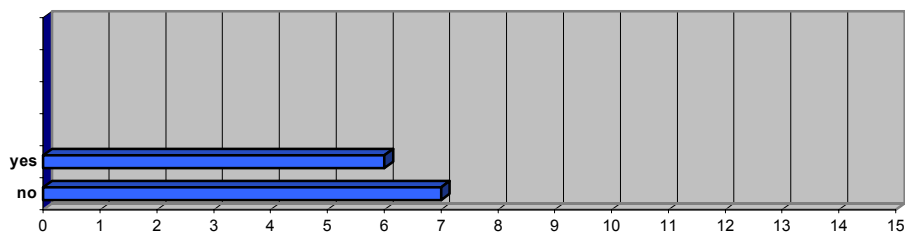
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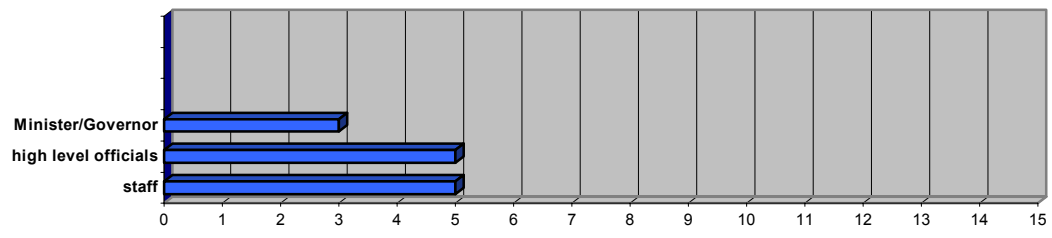
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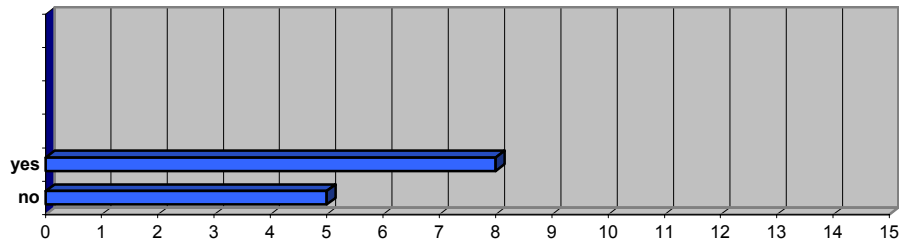


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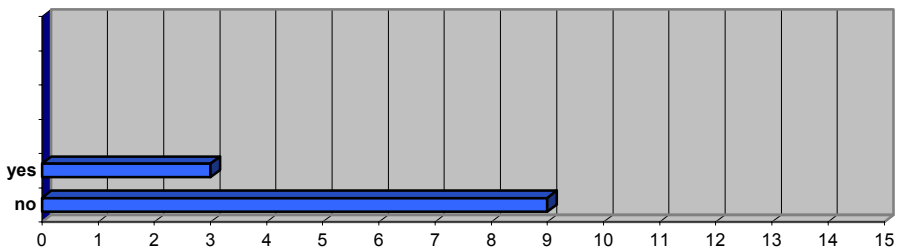


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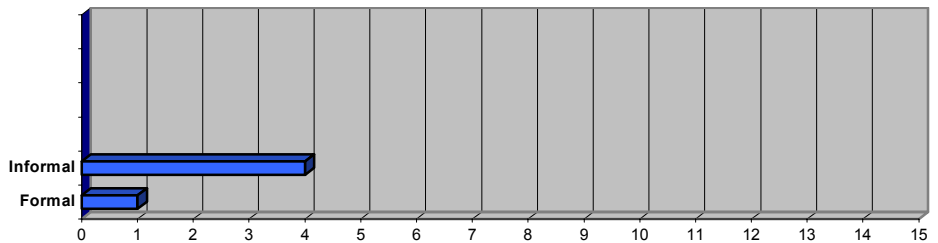
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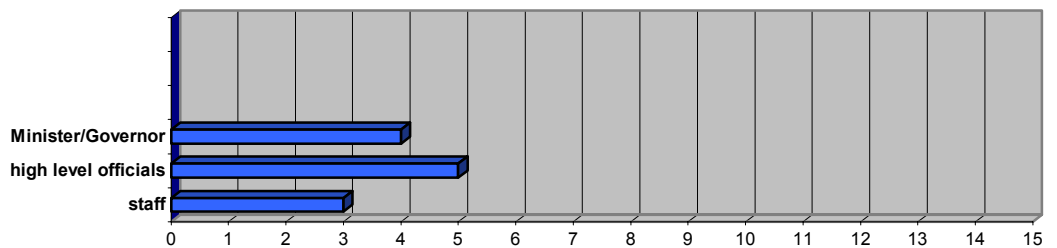
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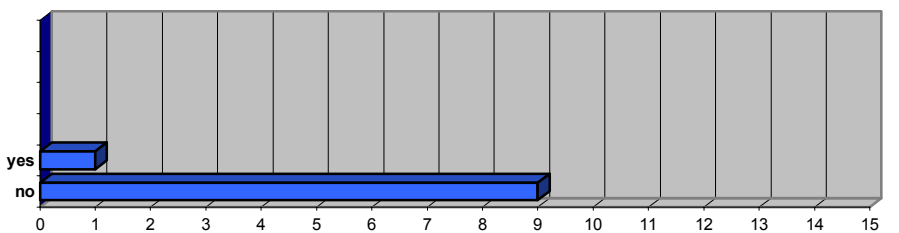
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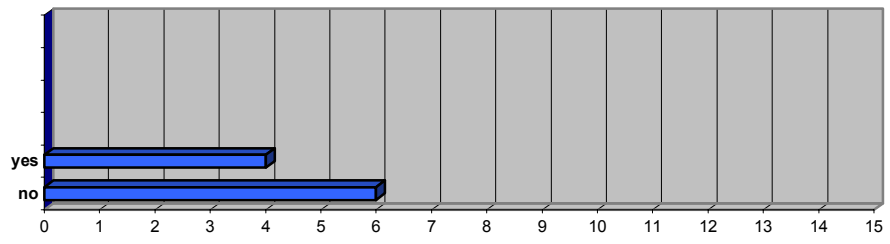
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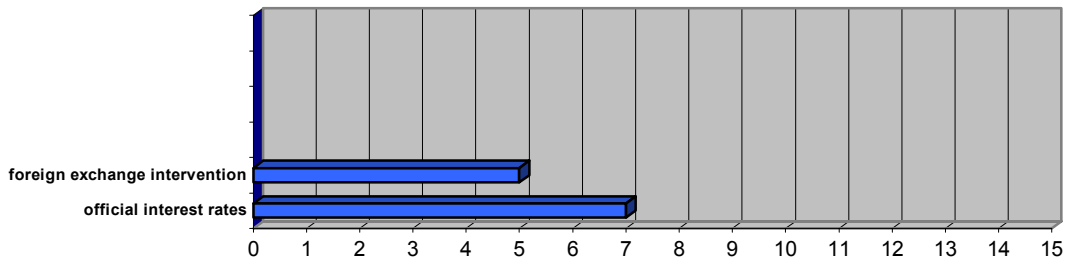


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