
Monetary and Fiscal Policy Co-operation: Institutions and Procedures in EMU*

LORENZO BINI SMAGHI

and

CLAUDIO CASINI

Italian Ministry of the Treasury

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 States on the basis of a questionnaire concerning the modalities of the formal or informal dialogue between the national central banks (NCBs) and the treasuries. The second section takes into consideration the current situation, based on the experience acquired in the first year of EMU and set 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-zone situation closer to the one prevailing in most countries prior to EMU.

I. 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-

* The opinions expressed in this article reflect those of the authors alone. We thank two anonymous referees and the editor for helpful comments.

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

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 and 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 (Persson and Tabellini, 1995). The literature has thus analysed pre-commitment strategies that may enable independence to be safeguarded 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, whereas it is more difficult to devise a comparably clear objective for fiscal authorities, although some kind of fiscal rule is present in all countries.³

In EMU, the problem of co-ordination between fiscal and monetary authorities is further complicated by the unique relationship between one European monetary authority and several national fiscal authorities, which have in turn a problem of co-ordination between themselves (Wyplosz, 1998).

As often happens in the European Union, 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 Member States' economic policies is conducted in Stage 3 of EMU, and how the European Central Bank (ECB) and the Council should conduct the dialogue. No explicit mention is made of co-ordination between monetary and budgetary policies. This was clarified in the report of the Council of Finance Ministers to the Helsinki European Council in December 1999, which states that the ECB cannot engage in *ex ante* co-ordination because this could jeopardize its ability to achieve its primary objective. In summary, co-ordination is to be implemented mainly through dialogue between the Council of Ministers and the ECB.

This article examines how the dialogue between the main institutions involved in EMU, i.e. the Council of Finance Ministers (Ecofin) and the ECB, is organized. 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.

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

³ In Germany, the golden rule of public finance 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 require a balanced budget over the medium term.

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 comparing the EMU situation with the one existing in the Member States before EMU, we look at: (i) the exchange of information between the ECB and Ecofin 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 III.

The work is organized as follows. Section II examines the situation prior to EMU in the Member States. Section III 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 to assess whether anything has been gained or lost in the move to EMU, and whether there are duplications or inefficiencies in the procedure underlying policy co-ordination. We also venture a few proposals aimed at improving the current situation within the existing Treaty provisions.

II. Policy Co-ordination Prior to EMU

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

The Methodology

We collected information on the way in which the dialogue between the NCB 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 formalized 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 comparison difficult. However, the independence of the Central Bank was granted in most countries well before 1999. In accordance with Art. 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 European System of Central Banks (ESCB). The questionnaire was answered in late 1998 or early 1999, by 13 countries,⁴ 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.

The Results

Tables 1–3 report the answers received from the 13 countries. Occasionally, the number of answers adds up to more than 13 since more than one answer was possible.

Table 1 contains the results on (a) the exchange of information on domestic economic conditions and (b) the monitoring of international financial markets. 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 were always involved; in a majority of cases the dialogue involved the minister and the governor directly. In the majority of countries, discussions on domestic economic conditions took place irregularly. In six countries, information was exchanged within specific working groups or task forces on the basis of background documents often prepared by the central bank.

There is only one country where the finance ministry and the central bank appear never to have exchanged views on the monitoring of international financial markets. The channels of communication were in general rather informal, on an ad hoc basis, as would be expected for such delicate issues. In contrast to domestic policy, monthly meetings were held regularly in nine countries to survey financial market developments.

In ten countries, the finance ministry produced the forecasts (Table 2). In six cases the central bank contributed to the preparatory discussions and to the *ex post* evaluation of the forecasts. The discussions took place mainly among staff at both senior and junior levels, although in three countries the minister and governor were directly involved. Turning to the definition of macroeconomic objectives, the central bank was involved in three countries, two of which are euro-zone countries with traditionally independent central banks

⁴ Only Greece and Luxembourg did not respond, the latter answer being in any case not relevant.

Table 1: Monitoring by Member States of (a) Domestic Economic Conditions, (b) International Financial Markets

	<i>Domestic Economic Conditions</i>	<i>International Financial Markets</i>
1. Are there regular discussions or exchanges of view between the finance ministry and the NCB on the state of the economy?		
Yes	13	12
No	0	1
2. Do they take place mainly through official or unofficial channels?		
Formal	6	5
Informal	12	12
3. At what level do they take place?		
Minister-governor	9	7
High-level official	13	12
Staff	9	8
4. What is the frequency of these exchanges of view?		
Weekly	1	2
Monthly	4	9
Bi-monthly	3	1
Other (ad hoc or case by case)	9	12
5. Are there working groups, task forces or other fora where exchanges of view take place?		
Yes	6	4
No	7	8

(Table 2). In all but one country, the discussions took place on an informal level but nearly always involved the governor and the minister. The discussion also entailed an *ex post* assessment of the achievement of the objective.

Where policy changes were decided by the central bank, the finance minister was informed beforehand in seven countries about interest rate changes and in five countries about foreign exchange market interventions (Table 3). 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

Table 2: Member States' Macroeconomic Forecasts and Objectives

	<i>Forecasts</i>	<i>Objectives</i>
1. How frequently does the Treasury conduct macroeconomic forecasts?		
No forecasts	4	
Two per year	2	
Three per year	2	
Four per year	2	
2. Does the Treasury officially pursue macroeconomic objectives (GDP growth, inflation rate, etc.)?		
Yes		8
No		5
3. Does the central bank contribute to these discussions?		
Yes	6	3
No	5	9
4. Does the central bank provide an input on		
Inflation	1	
Interest rates	1	
Exchange rates	1	
5. Is there a discussion <i>ex post</i> on the macroeconomic results of forecasts/achievements of objectives?		
Yes	6	4
No	7	6
6. Are there working groups or task forces that deal with such items?		
Yes		1
No		9
7. At what level does the discussion take place?		
Minister–governor	3	4
High-level official	5	5
Staff	5	3
8. Is the discussion mainly formal or informal?		
Formal		1
Informal		4

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

Table 3: Information from Member States on Policy Changes

1. Is the finance ministry informed before the public of a decision by the central bank concerning:	
Official interest rates	7
Foreign exchange intervention	5
2. Is the finance ministry informed by the central bank beforehand about:	
Inflation projections	2
Intermediate targets	2

assumption, that such meetings and exchange of views were useful and have made a positive contribution to the performance of each other's tasks.

III. Policy Co-ordination in the First Year of EMU

The Legal Framework of 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-zone and ESCB may take place.⁵

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

The Luxembourg European Council (December 1997) stated that:

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:

⁵ See, on the legal and institutional environment of EMU, Andenas *et al.* (1997), Beaumont and Walker (1999), Begg (1997), Buitier (1999), Issing (1999), Everson (1999), Louis (1998), Smits (1997), Walker (1996) and Weatherhill and Beaumont (1995).

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 a technical level can represent a useful channel of communication between fiscal and monetary authorities.

The President of Ecofin 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 Art. 113 (ex Art. 109b) of the Treaty. This is the most important means by which dialogue between the Council and the European Central Bank is legally granted. 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, of course, have 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, contrary 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 ECB. Although the participation of the President of the ECB is of a slightly different nature from that of the President of 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 opportunity for dialogue between

the two authorities. In practice, the ECB is always invited to participate in the meetings of the Euro-11. (The Euro-11 will become the Euro-12 when Greece adopts the euro.)

The participation of the President of the Council in ECB meetings should enable the EU governments to be informed on the decisions taken by the ECB concerning, for example, interest rate changes, foreign exchange interventions or other measures regarding the competence of the Eurosystem. It also allows the views of the Council to be conveyed to the ECB Governing Council on matters of its competence.

The Euro-11, created to develop 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 macroeconomic items in the euro-zone.⁶ 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.⁷ The Euro-11 usually takes place in the morning of the same day of the Ecofin Council (before the formal Ecofin session), or in the evening of the day before. 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 (EFC), established by Art. 114(2) (ex Art. 109c) of the Treaty. Article 2 of its statute states that this 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 ministries, national central banks, Commission and ECB senior officials.⁸ The EFC has a mandate to 'keep under review the economic and financial situation of the Member States and of the

⁶ 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'.

⁷ 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'.

⁸ 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'.

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. Another important group, the Economic Policy Committee, also composed of officials from finance ministries and central banks, provides a further useful forum for discussion and dialogue on structural and other economic policy issues.⁹

The Pre-EMU Co-ordination System is not Sufficient

The move to EMU has changed the picture described in Section II. Member States participating in the single currency have transferred their monetary policy competencies to the supranational level, the Eurosystem, which is responsible for conducting the single monetary policy of the euro-zone.¹⁰ Member States have, however, retained 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.¹¹ This change in the allocation of responsibilities between national and supranational authorities has an impact on the dialogue between the authorities in charge of fiscal and monetary policies.

The dialogue described in Tables 1–3 may not have changed much within the Member States. 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

⁹ Representatives from other administrations, e.g. social affairs ministries, also participate.

¹⁰ 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 not yet participating in stage 3 of EMU, however, have a special status in the ESCB: they do not take part in the decisions regarding the single monetary policy for the euro-zone 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-zone, the term Eurosystem will become synonymous with the ESCB. The Eurosystem is governed by the Governing Council and the Executive Board of the ECB.

¹¹ See in particular Harden (1999). On the Stability Pact, see Beetsma and Uhlig (1997) and Eichengreen and Wyplosz (1998).

bank officers, have probably not stopped meeting since 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.¹² However, the substance and relevance of the discussion has changed because the authority with which each of the interlocutors expresses his views has changed. For example, the authority with which each Central Bank Governor expresses his views about monetary policy has changed: on the one hand, each Governor now has competence 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 17 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 of the various elements contributing to the single monetary policy decisions in the euro-zone, one should speak to 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 speak to all finance ministers to provide them with the relevant information, or on the occasion of the meeting of the Council of EU ministers.

Under EMU, the autonomy of finance ministers is constrained by the Stability and Growth Pact and the sharing of competence within the Euro-11 group for euro exchange-rate policy. As a result, 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, but between the situation prevailing in EMU at the European level and that in the Member States prior to EMU.

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-zone for the five main questions considered in the previous section.

Concerning the monitoring of the economic conditions in the euro-zone, 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

¹² As noted by Wyplosz (1999) 'the more independent is the central bank the easier it is to conduct true negotiations with political authorities'. See also the very interesting proposals on a better policy mix (the joint conduct of fiscal and monetary policy) negotiation between ESCB and governments.

meetings are organized by the Presidency, occasionally with the support of background material prepared by the Commission.

Exchange of views also takes place within the EFC, which also meets on a monthly basis, although the latter is not restricted to the euro-zone 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.¹³ No technical group meets, in a formal or informal way, to discuss and monitor in a systematic way euro-zone economic and financial developments.

Another forum where economic conditions in the euro-zone 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 organized in a systematic way. Only at the Euro-11 meeting is there scope for an exchange of views between the ECB and finance ministers.

Foreign exchange market developments are occasionally discussed at the Euro-11 or the EFC. However, there is no specific technical group in charge of preparing the discussions on financial and foreign exchange markets. The EFC generally prepares G-7 meetings or discussions. The chairman of the EFC and representatives of the Council Presidency and of the ECB co-ordinate the dialogue between the various institutions.

The ECB contributes to the macroeconomic forecasting exercises conducted twice a year by the Commission. The input provided is as yet unclear, as the internal ECB forecasting procedure is under review. Furthermore, the ECB forecasts are not made public or discussed, even informally, with the Commission or representatives from finance ministries.

The ECB does not participate actively in *ex post* discussions on forecasts, at any of the levels at which they used to take place nationally.

The ECB contributes actively to discussion on the formulation of policy objectives in the shape of stability programmes and the broad economic policy guidelines within the EFC, the Euro-11 and Ecofin. It actively contributes to the opinion expressed by the Council on these programmes and guidelines, and thus on the exercise of peer pressure that takes place through these instruments.

¹³ 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. The broad economic policy guidelines (or 'Broad Guidelines of the Economic Policies of the Member States and the Community') are based on Art. 99 of the Treaty. They have a central role in the multilateral surveillance procedure.

The ECB also participates in *ex post* discussions about the achievement of the objectives, assessing possible deviations and the corrective measures to be taken. The Council of Ministers is, however, only informed *ex post* by the ECB of any decision, or discussion, relating to monetary policy strategy or to specific decisions.

IV. A Comparison Between Pre- and Post-EMU

Any description of how EMU is functioning has to be qualified because the arrangements are new and still evolving. The description of the EMU situation has to be considered with care given its limited experience so far and ongoing developments. The following observations 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 at both the technical and political level, at the Ecofin and EFC. This is 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 allows the ECB to formulate its criticisms of the objectives or the implementation of the budgetary policies of the Member States.

The reverse relationship is much less intense. The Council of Ministers does not participate routinely in ECB Council meetings, nor is it informed about their deliberations.¹⁴ 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-zone economic and monetary conditions at the European level in EMU seems to be more formalistic and less intense than that 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 intervals. At the technical level there is little exchange of views, either on current economic developments or 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, however, seem difficult to organize within the European context. This may be one of the reasons for the apparently discordant views expressed at times on the euro exchange rate among finance ministers and also among ECB Council

¹⁴ See Ch. 6 of Bini Smaghi and Gros (2000) for the issue of publication of the minutes.

members. This creates uncertainty in financial markets about the governance of the euro-zone.

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

There are certainly reasons for this result. One is the difficulty of organizing 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 respective institutions. It will take time to allay such fears and to improve trust among the institutions. Certainly, the result is that the conduct of monetary and budgetary policies by the respective competent authorities in the euro-zone is made more difficult than it was in the past within the Member States.

V. Conclusions and Proposals

The discussion in the previous sections suggests that policy co-ordination under 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 suboptimal decisions. It is thus appropriate to consider ways of improving the dialogue that takes place at the European level between finance ministers and the Eurosystem.

We put forward some proposals to stimulate debate. 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 exchange of information between the European fiscal and monetary authorities comparable to the one prevailing before EMU within the Member States simply by better implementation of the existing treaty provisions and through better functioning of the current mechanisms.

A first proposal is to implement fully Art. 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 issues relevant to the EU economy. The EU Presidency would report on the outcome of the discussion to the members of Euro-11.¹⁵ The latter would clearly be bound by

¹⁵When the Presidency of Ecofin does not correspond to that of the Euro-11, the reporting could take place at Ecofin lunches, which are restricted to ministers and which normally give the Euro-11 an opportunity to debrief the other members about their deliberations. When the two presidencies coincide, the debriefing can take place at any Euro-11 meeting.

confidentiality. This procedure should not be seen as infringing the independence of the ECB. Rather it would entail a change comparable 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 market developments are discussed regularly at the technical level, in addition to the EFC, Ecofin and the Euro-11 meetings, as was the case in several countries before 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 Art. 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 when markets are volatile.

A third proposal would be that the Euro-11 discuss 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 a few simple suggestions with a view to bringing the current degree of co-operation between fiscal and monetary policies in the euro-zone closer to the one prevailing in most countries prior to EMU. They are put forward with a view to stimulating discussion on ways to improve the dialogue and thus effectiveness of monetary and budgetary policies.

Correspondence:

Lorenzo Bini Smaghi
Dipartimento del Tesoro, Ministero del Tesoro
00187 Roma, via XX Settembre 97, Italy
email: lorenzo.binismaghi@tesoro.it

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