12th April 1989

. <u>Is EMU necessary for the completion of the internal market by 1992?</u>

No. Economic and monetary union has been a goal of the Community for many years as is confirmed in the Single European Act, but it goes well beyond the single market programme and will require institutional change and further major steps in all areas of economic policy-making.

. <u>Would EMU increase the potential benefits available from the internal markets?</u>

Yes. There could be a considerable extra gain derived from three interrelated developments. First, there would be an enlargement of the reciprocal room for manoeuvre. Second, strengthening and expanding common policies would develop a more balanced economic structure throughout the Community. Third, exchange rate uncertainties would be eliminated, transactions costs reduced, and the transparency of the market would be greatly increased.

. <u>Would EMU have harmful effects on less advanced regions?</u>

No. As is clearly being demonstrated in Spain and Portugal at the moment, economic and monetary union can have beneficial effects on the less developed regions of the Community. For example, regions with lower wage levels would have an opportunity to attract modern and rapidly growing service and manufacturing industries for which the choice of location would not necessarily be determined by transport costs, skill of labour and market proximity. Historical experience suggests, however, that in the absence of countervailing policies the overall impact on peripheral regions could be negative. Transport costs and economies of scale would tend to favour a shift in economic activity away from less developed regions, especially if they were at the periphery of the Community, to the highly developed areas at its centre. The economic and monetary union would have to encourage and guide structural adjustment which would help poorer regions to catch up with the wealthier ones.

. Why is a new Treaty required?

The Treaty of Rome, as amended by the Single European Act, lays down the basis for progress towards EMU, but it is not sufficient for the full realisation of EMU. Under present national legislation no member country is able to transfer ultimate responsibility for economic and monetary decision-making. Hence, without a Treaty steps towards EMU would be limited to non-binding co-ordination and strengthened co-operation. This is not sufficient for the conduct of a single monetary policy, which is a requirement of monetary union. Furthermore, although achieving EMU will be done in stages, the process should be seen as a whole and the final objective clearly specified from the beginning. The Treaty would do this and would lay down the functional and institutional arrangements as well as provisions governing their step-by-step implementation.

. Why is a new monetary institution required?

An economic and monetary union requires a single monetary policy. Monetary union, as well as the total and irreversible convertibility of currencies and the complete liberalisation of capital movements together with the integration of the Community's banking and financial markets, implies the irrevocable locking of exchange rate parities and the elimination of margins of fluctuation. For this, the co-ordination of as many national monetary policies as there are currencies participating in the union would not sufficient. The responsibility for the single monetary policy would have to be vested an a new institution with a federal structure, in which centralised and collective decisions would be taken on the supply of money and credit as well as on the instruments of monetary policy, including interest rates. This new institution would be called the European System of Central Banks (ESCB). It would have to take its place in the constellation of Community institutions.

. Why is no new institution required on the economic side?

An institutional framework for performing the necessary policy tasks in the non-monetary field has already been established by the Treaty of Rome. Different and complementary tasks have been conferred on the European Parliament, the Council of Ministers, the Monetary Committee, the Commission and the Court of Justice. The new Treaty would therefore not have to provide for a new institution. It would, however, have to provide for additional and changed roles for the existing bodies in the light of the decision-making authority that would have to be transferred from the national to the Community level and of the policy functions that they would have to fulfil in the economic and monetary union.

. <u>What would be the form and functions of the new monetary institution?</u>

The European System of Central Banks would consist of a central institution and the existing national central banks together in a federal structure. The System would be committed to the objective of price stability and would be responsible for the formulation and implementation of monetary policy, exchange rate management and the maintenance of a properly functioning payments system. It would pursue these objectives and tasks in support of the general economic policy set at Community level by the competent bodies. It would have at its disposal the necessary policy instruments and it would not lend to public sector authorities. There would be a Board with its own supporting staff, and a Council composed of the members of the Board and the Governors of the national central banks.