COMMITTEE FOR THE STUDY OF
ECONOMIC AND MONETARY UNION

CSEMU/9/89
20th January 1989

II. How to define the final stage of economic and monetary union

1. Introduction

1. The establishment of an economic and monetary union will represent the final result of the progressive process of economic integration in Europe. This result will have been attained when the Community forms a single currency area in which all residents can engage freely and without impediment in any kind of economic activity, subject only to commonly applied or mutually recognised rules and regulations and economic policies geared towards price stability, balanced growth and converging standards of living, high employment and external equilibrium.

2. The EC Treaties, as amended by the Single European Act, provide the legal foundation for many of the necessary steps in the process of economic integration. However, the existing Treaties do not suffice to set up an economic and monetary union. The realisation of this objective calls for new arrangements which can only be established on the basis of a new Treaty and consequent changes in national legislations. For this reason the union will have to be embodied in a new Treaty which clearly lays down the basic functional and institutional arrangements, as well as provisions governing their step-by-step implementation.

3. Even with a single market, a unified monetary system and an institutional and functional framework for economic management, the Community will continue to consist of independent nations with differing economic characteristics, traditions, social customs and languages. The existence and preservation of this diversified structure necessitates that a large degree of autonomy in economic decision-making will continue to rest with individual member countries and that a balance will be struck

between national and Community interests. For this reason it is not possible simply to model an economic and monetary union for the Community on the example of existing economies, but it is necessary to develop an innovative and unique approach.

An essential element of this approach to economic and monetary union consistent with the historical and economic conditions in member countries is the distribution of economic policy responsibilities within the Community in strict conformity with the constitutional "principle of subsidiarity". According to the principle, the functions of higher level of government should be as limited as possible and subsidiary to those of lower levels. Thus, the attribution of competences to the Community must be narrowly confined to those areas in which a collective decision-making is necessary, whereas all policy functions which can be carried out at national (or local) levels without adverse repercussions on the cohesion and functioning of the economic and monetary union must remain in the competence of the member countries.

With due regard to the principle of subsidiarity and taking into account what is already provided for in the EC Treaties, a need for policy decisions at the Community level arises primarily - though to different degrees - in the field of macro-economic management. As a monetary union requires a single monetary policy the responsibility for the formulation of this policy as well as decisions on day-to-day operations must be centralised in one decision-making body. In the field of fiscal policy the need for centralisation is less stringent and a wide range of budgetary decisions should be left to national authorities. At the same time, however, all member countries will have to recognise and accept in their decision-making the existence of the constraints on national fiscal policy that emanate from participation in an economic and monetary union.

4. A step-by-step approach to implementing an economic and monetary union can be set out only if there is a clear understanding of this final objective, its implications for the working of the economy and economic policy decisions and of the principal elements that have to be in place for its successful and durable functioning. Economic union and monetary union are closely intertwined, form two integral parts of a single whole and must therefore be implemented in parallel. It is for reasons of expositional clarity that the following sections look separately at the principal

features defining an economic and a monetary union. This description begins with the concept of a monetary union, chiefly because an economic union can be circumscribed more clearly and specifically in the context of monetary union.

2. The principal features of monetary union

5. A monetary union describes a single currency area, which as already stated in the 1970 Werner Report, is realised when three conditions are fulfilled:

- the assurance of total and irreversible convertibility of currencies;
- the complete liberalisation of capital transactions and full integration of banking and other financial markets; and
- the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities.

The first two of these requirements - the convertibility of Community currencies and the creation of a free and fully integrated financial market - have already been met or will be with the completion of the internal market programme. A monetary union will, however, be accomplished only when the decisive step is taken to lock irrevocably the exchange rates between Community currencies. This step presents the single most important measure to create a situation in which all currencies can be used indifferently to set prices, make payments and denominate debts or credits.

6. The three above conditions are sufficient for the establishment of a single currency area, but would not necessarily mark the end of the process of monetary unification in the Community. At a later stage the adoption of a single currency, while not strictly necessary for the creation of a monetary union, may be seen - for economic as well as psychological and political reasons - as a natural and desirable further development of the monetary union. In this connection, the Committee endorses the idea that the ECU should become the future currency of the Community and that an official declaration to this effect should be made at

the time of the decision to prepare a new Treaty. While the Treaty should allow for an appropriate period of transition, this would mean that ultimately the ECU will replace existing national currencies to serve as the only means of payment, unit of account and store of value for all residents of the Community. The introduction of a single currency would, however, be possible only some time after exchange rates have been locked and when market forces have fostered a spreading use of the ECU in commercial and financial transactions.

As a result of the permanent freezing of exchange rates national currencies will become increasingly closer substitutes: their interest rates will tend to converge and differences between prices of goods traded throughout the Community will largely disappear. However, the pace with which these developments take place will depend critically on the extent to which firms, households, labour unions and other economic agents are convinced that the decision to lock exchange rates will not be reversed. Initially, the continuing existence of national currencies may leave doubts about the commitment to unchangeable exchange rate parities and engender market perceptions of differences between individual currencies' quality and standing. Both, a coherent monetary management and convincing evidence of an effective co-ordination of non-monetary policies will play a crucial role in dispelling such doubts over time.

7. The successful functioning of a monetary union in which national currencies co-exist has far-reaching implications for the formulation and execution of monetary policy in the Community. The adoption of permanently fixed exchange rates in an environment of free and fully integrated capital and money markets generates the <u>need for a single monetary policy</u> carried out through new operational procedures and not simply through the co-ordination of as many national monetary policies as currencies participate in the union. This in turn requires the attribution of the responsibility for monetary policy to a new institution (the principal features of which are outlined in Section 4), which will not only form the basis for centralised and collective decisions on the expansion of money and credit in the Community, but will also possess the necessary financial attributes (i.e. its own balance sheet) and the regulatory powers to enforce the pursuit of the chosen policy. One possibility for managing a common monetary policy might be to employ the official ECU as a common

reserve instrument which, firmly controlled by a central monetary institution, would determine the scope for national monetary expansion in line with the Community's monetary policy stance. [Could another possibility be that one of the existing national currencies is chosen as the anchor of the system and managed collectively in the framework of the European central bank system?]

This shift from national monetary policies to a single monetary policy is an inescapable consequence of entering a monetary union and marks one of the principal institutional changes required by economic and monetary union. In practice, however, the incision will not be so deep but will rather represent the completion of a progressively intensified co-ordination of national monetary policies, which had in many respects already foreshadowed the move to a single monetary policy in the Community. Even prior to the decision to fix exchange rates permanently, the liberalisation of capital movements and financial market integration will have created a situation in which the conduct of a completely autonomous monetary policy at the national level has been rendered much more difficult. Once every banking institution in the Community is free to accept deposits from and grant loans to any customer in the Community and in any of the national currencies, the large degree of territorial coincidence between the national central banks' area of jurisdiction, the area in which their currency is used and the area in which "their" banking system operates, will be lost and it will only be possible for monetary policies to be effective if they are merged into a single mould.

8. The decision to lock irrevocably exchange rate parities between national currencies will have profound effects on the functioning and the performance of the economy of the Community.

A monetary union will remove exchange rate uncertainties and lower costs of transactions between residents of different countries in the Community. This will provide a stimulus to intra-Community trade and contribute to a more efficient allocation of resources, and thereby raise the level of economic activity and employment in the Community. At the same time, movements of exchange rates unwarranted by fundamental factors can no longer be a source of macro-economic disturbances and competitive distortions. Moreover, once the locking of exchange rates has gained credibility in the market place, firms and households in all countries are

likely to behave more conformably and will thereby contribute to the evolution of a more homogeneous economic structure in the Community. Finally, the creation of a single currency area in combination with an unrestricted common market means that the Community will be much less susceptible to external shocks.

The most serious problem posed by a monetary union is that the exchange rate can no longer serve as an instrument for adjusting economic imbalances among member countries. To the extent that market mechanisms do not perform an adequate equilibrating role, other policies, such as income, fiscal and structural policies, will have to be used more intensely to bring about the corrections in cost and price trends that used to be obtained from time to time by realignments of exchange rate parities. For this reason, as discussed in the next section, the implementation of a monetary union must be accompanied by parallel progress in creating or strengthening effective alternative adjustment mechanisms. Moreover, while the freezing of exchange rate relationships will not eliminate the possibility of imbalances between the supply of and demand for economic resources in individual Community countries, the statistical measurement of such imbalances may become more difficult in a fully integrated market because balance-of-payments disequilibria would essentially assume the meaning of regional imbalances. As a consequence, balance-of-payments figures which represent currently a highly visible and sensitive indicator of economic disequilibria would no longer be able to play a significant role as guidepost for policy-making. Moreover, with parities irrevocably fixed foreign exchange markets would cease to provide a source of pressure for policy corrections when economic disequilibria develop and persist. However, the balance between the economic benefits and costs of exchange rate fixity will become more and more favourable as the Community develops into an optimum currency area. In order to tilt the balance in this direction it is indispensable that the move towards monetary union is coupled with measures designed to strengthen the mobility of factors of production and a close co-ordination of non-monetary policies.

9. In <u>summary</u>, the realisation of a monetary union means that in a situation of free capital movements and full financial integration the exchange rates between Community currencies are irreversibly fixed. This will create a monetary union in which, at least initially, all national

currencies circulate freely although they might eventually be replaced by the ECU as the single Community currency. The transition from a situation of fixed but adjustable exchange rates to a system of permanently locked parities implies a fundamental change in the economic management of the Community. National monetary policies will have to give way to a single monetary policy for the Community as a whole, being formulated and executed jointly in the context of a European system of central banks. At the same time, a single currency area implies the abandonment of the exchange rate as an instrument of adjustment of imbalances among Community countries and therefore requires, in parallel to the process of monetary integration, measures to co-ordinate effectively policies in non-monetary areas.

3. The principal features of economic union

10. The definition of economic union is less straightforward than that of monetary union. It certainly comprises the complete freedom of movements of persons, goods, services and capital and it also includes a certain amount of public functions carried out through regulation, taxation and expenditure. The scope of these functions, however, as well as their distribution between central and local governments, varies from country to country and has evolved historically. This is why in defining the essential elements of economic union the Community should be guided by two essential criteria: consistency with the principles that define the economic order of the Community countries and guarantee of an appropriate balance between the economic and the monetary components of the union.

As to the first criterion, beyond the differences that may exist between member countries or - within the same country - in different political periods, the distinctive common feature of economic systems in Europe is the combination of a large degree of freedom for market behaviour and private economic initiative with public intervention in the provision of certain social services and protection of the weak. Within this broad conception, the scope for attributing to the Community economic functions that are at present exercised at national levels is limited by adherence to the principle of subsidiarity and by the fact that certain fundamental functions are at present exercised at the national level.

As to the second criterion, i.e. the need to ensure a balance between the economic and the monetary component of the union, given the

interdependence between real and monetary developments and the interactions between economic and monetary measures, common policies effected at the Community level and a close co-ordination of national policies are also indispensable for the cohesion and stability of a monetary union. Without adequate constraints on non-monetary policies and appropriate measures to correct market imperfections it would be impossible to maintain permanently fixed exchange rates between Community currencies.

The creation of a single market in Europe will impart strong impulses to economic growth and increase economic welfare through both, a further specialisation in line with countries' and regions' comparative advantages and the exploitation of economies of scale in production, research and marketing. These gains will materialise as the residents in the enlarged market without internal frontiers will respond to price, wage and interest rate movements, which, transmitted throughout the Community, will provide important incentives for a more efficient use of economic resources. There is no doubt that this process will stimulate economic activity and employment for the Community as a whole, greater economic freedom and growing trade in goods and services.

11. In a situation of irrevocably locked exchange rates this process will benefit from a monetary environment of greater certainty, but - as previous historical experience shows - it will also encounter <u>certain economic risks</u>. It is so because the process of adjustment and restructuring set in motion by the removal of physical, technological and regulatory barriers, is unlikely to work smoothly and always to produce satisfactory results within reasonable periods of time, while exchange rate realignments will not be available as an instrument in support of adjustment. Moreover, economic imbalances emanating from labour and other cost developments in one member country, external shocks with differing repercussions on individual economies, or divergent non-monetary policies pursued at national levels can not be corrected by exchange rate changes but, as pointed out in the previous section, will have to be eliminated largely by other policy measures. Only if such imbalances can be reduced rather quickly or their emergence be avoided altogether will it be possible to sustain permanently fixed exchange rates without undue economic costs in the form of marked pressures on output and employment in certain regions of the Community.

12. It is primarily for these reasons that the creation of an economic union in conjunction with monetary union requires action in three interrelated areas: measures to create a larger market without internal frontiers and to strengthen its functioning; common policies to enhance the process of resource allocation in those economic sectors and geographical areas where the working of market forces needs to be reinforced or complemented; arrangements which allow both, to limit the possibility of divergences between national non-monetary policies and to design a macro-economic policy mix for the Community as a whole.

13. The measures aimed at creating and strengthening the market are to a large extent envisaged in the EC Treaty and the Single Act establishing, by 1992, a frontier-free market within which persons, goods, services and capital can move freely and without distortion of competition. The creation of this market presupposes a "level playing field" for all residents of the Community, which allows them to make decisions on production, investment and consumption in broadly similar conditions and on the basis of similar levels of information. To this end all barriers which tend to separate markets along national borders have to be eliminated. In particular, all technical and regulatory obstacles have to be removed, norms have to be harmonised or mutually recognised, and certain common minimum standards governing social policy and consumer and environmental protection have to be agreed. Moreover, tax treatment must not discriminate in favour of or against economic activities across Community countries. At the same time, competition policy - conducted at the Community level - has to operate in such a way that access to markets is not impeded and market functioning not distorted by the behaviour of private or public economic agents.

Beyond clearly formulated policies to dismantle barriers and to prevent restrictive practices efforts may also have to be made to encourage in all countries the adoption of wage-setting procedures which are based on productivity developments and to strengthen the regional and occupational mobility of labour.

14. Community policies to complement the single market are necessary because even in a large economic space without internal frontiers, market forces cannot be expected to lead, on their own, to an optimal allocation

of resources and a balanced distribution of wealth throughout the Community. Such policies are needed in a wide range of areas, such as agriculture, transport, research and technological development, environment and, in particular, regional and structural development. Unless the move to economic and monetary union is postponed until such a distant date at which all Community countries have reached a broadly similar stage of development, the creation of a single market and the locking of exchange rates will expose regions with ill-adapted structures and lower productivity to strong and possibly unsustainable competitive pressures. Regional disparities may therefore at least in the short run be aggravated rather than mitigated. If undue economic and political tensions arising from dislocations of industries and labour forces are to be avoided, common efforts will have to be made to enable the Community's less developed regions to catch up with the wealthier ones. To this end, the Community must develop an effective policy and be endowed with adequate financial resources which allow it to assist regional development efforts undertaken at national levels. An important step in this direction has been taken in February 1988 with the decision to enlarge considerably the resources of the Community's structural funds and to reorganise structural policies. The principal objective of these policies would not be to subsidise incomes and simply temper inequalities in standards of living but to help to equate the conditions for production through investment programmes in such areas as physical infrastructure, communication, transportation and education. The success of these policies hinges not only on the size of the available financial resources, but to a decisive extent also on the effectiveness of the investment programmes. A longer-term approach in this area will offer countries with lower levels of productivity an appropriate period of transition and in this sense constitutes an essential element of the policy mix to ensure continuing economic integration and the attainment of economic and monetary union.

Furthermore, as long as wage flexibility and labour mobility have not increased considerably, changes in competitiveness in different regions of the Community could lead to relatively large declines in output and employment in areas with deteriorating competitiveness. In order to ease temporarily adjustment burdens, it might be necessary in certain circumstances to organise financing flows through official channels. Such financial support would be additional to what may be provided by

spontaneous capital flows and should prompt the recipient to intensify rather than delay economic adjustment. It would therefore have to play a role similar to that of conditional balance-of-payments assistance available under present monetary arrangements.

15. Macro-economic policies are the third area in which action is required. While economic union necessitates that policies to ensure a proper distributional and allocative functioning of the market without frontiers are formulated and, in part, executed at the level of the Community, adherence to the principle of subsidiarity implies that many other non-monetary policies will continue to be carried out under the primary competence of national authorities. This applies most importantly to budgetary policies which, apart from the relatively small Community budget, will remain the preserve of member states even at the time of the final stage of economic and monetary union, unless major public goods constituting the bulk of public sector activity (internal and external security, justice, social security, environment) were to a large extent provided at the Community level, thereby significantly enlarging the Community budget.

However, with budgetary decisions being taken at national levels, an economic and monetary union can only operate on the basis of mutually consistent and prudent fiscal behaviour on the part of all member countries. Unco-ordinated and divergent national budgetary policies could not only undermine monetary stability, but would also generate imbalances in the real and financial sectors of the Community and render it difficult, if not impossible, to pursue appropriate macro-economic policies for the Community as a whole. This is why all countries will have to accept that sharing a common market and a single currency area imposes narrow constraints on their national budgetary policies and requires strict fiscal discipline.

To some extent market forces will exert disciplinary influence on fiscal policies because financial markets and investors will assess the budgetary and financial position of different countries, penalise excessively expansionary fiscal behaviour and thus exert pressure for sounder policies. However, experience suggests that market perceptions of official borrowers' creditworthiness do not provide strong and compelling signals to national authorities. Rather than leading to a gradual

adaptation of borrowing costs, market views tend to change abruptly and result in the closure of access to market financing. The constraints imposed by market forces may either be too slow and weak, or too sudden and disruptive. For this reason an economic and monetary union requires arrangements which effectively ensure a close and flexible co-ordination of national fiscal policies.

The first aim in the area of macro-economic policies must be to set up arrangements which will effectively limit the scope for budget deficits that can be incurred by individual member countries of the Community. Safeguards in this respect will have to include (in accordance with the criteria laid down for a European system of central banks) strict limits on the maximum permissible access to monetary financing, as well as on borrowing in non-Community currencies. In addition, agreement must be reached on a system of [binding] rules which limits the maximum size of national budget deficits. The second aim of the co-ordination arrangements in the fiscal field must be to enable the Community to conduct a coherent mix of fiscal and monetary policies, i.e. to dispose of a system of rules that can be applied with a view to determining the aggregate balance on national budgetary positions, including that of the Community.

16. In summary, the realisation of an economic union in conjunction with monetary union implies:

- the creation of an internal market without physical, regulatory or fiscal frontiers, supplemented by a competition policy which effectively removes distortions in competition;
- common policies in transport, research and technological development, regional and structural development which will help to exploit the full potential of the single market and its role in the allocation of resources, but which will also assist regions with lower productivity to catch up with the richer parts of the Community;
- rules setting maximum possible deficits for national budgets and strict limits to both monetary financing and borrowing in third currencies;
- effective procedures for the co-ordination of national budgetary policies to avoid undesirable repercussions on monetary policy

and distortions in real and financial markets, and to enable the Community to pursue a mix of fiscal and monetary policy aimed at economic stability and growth.

These requirements have to be met not only to derive the greatest possible benefit of an enlarged economic space, but they are also indispensable for the cohesion of the monetary union.

4. Institutional arrangements

17. Management of the economic and monetary union calls for an institutional framework which will allow policy to be decided and executed at the Community level in those economic areas that are of direct concern to all member countries. The institutional framework should guarantee an efficient economic management, properly embedded in the democratic process. The creation of a monetary union necessitates the setting-up of a new monetary institution, placed in the constellation of Community institutions (European Council, Council of Ministers, European Parliament, Commission and Court of Justice). The implementation of economic union does not require the creation of a new institution, but in order to formulate and implement common policies in non-monetary fields and to co-ordinate policies under the competence of national authorities, it requires a revision and, possibly, some restructuring of existing Community institutions.

18. The need for a new monetary institution arises because one monetary policy cannot be decided and implemented independently by different central banks and because decisions over day-to-day operations of monetary policy must be centralised in order to be able to respond quickly to changing market conditions. For these reasons the Community's domestic and international monetary policy must be organised in a European system of central banks (ESCB). The system could consist of a central institution, with its own balance sheet, and national central banks. At the final stage the ESCB - acting through its Council - would be responsible for the formulation of the thrust of monetary policy and the management of the Community's exchange rate vis-à-vis third currencies. The day-to-day operations conducted at the Community level, possibly involving changes in

interest rates and the use of other policy instruments, would be carried out under the responsibility of the Board of the central institution, supported by its own staff. The national central banks would be entrusted with the implementation of the policies at the regional level in accordance with guidelines established by the Council.

The European system of central banks, which embodies the Community's monetary order, should be built on the following basic principles:

Structure and organisation

- a federative structure, since this corresponds best to the political structure of the Community (e.g. a European Central Bank Council representing all the central banks in the union);
- a centralised body (Board) responsible for the implementation of Council decisions as far as they apply at Community level;
- nomination of members of the Board for relatively long periods on an irrevocable basis;

Mandate and functions

- the mandate of the System must be to maintain the stability of money as the prime objective of the Community's monetary policy. While fulfilling this task, the System has to support the general economic policy of the Community. Stability of the currency in terms of prices must take precedence over exchange rate stability;
- responsibility of national central banks for policy implementation at regional level;
- the System will be responsible for the formulation of monetary policy at the Community level, for the co-ordination of policy implementation at the regional level and for the preservation of a properly functioning payments system;
- the System will be responsible for the formulation of banking supervisory policy at the Community level and co-ordination of banking supervision policies of the national supervisory authorities;

Status

- independence of instructions from national governments and Community authorities;
- a proper democratic legitimisation which might be effectuated through regular reporting to a committee of the European Parliament and through the European Parliament taking part in the appointment procedures with regard to the members of the Board;
- supervision of the administration of the System independently of the Community organisations, for example, by a supervisory council or a committee of independent auditors;

Policy instruments

- the instruments at the disposal of the System will be enumerated in its statute with a procedure for amending this enumeration; the instruments will comprise both regulatory powers and the ability to conduct central banking operations in money and foreign exchange markets;
- strict limitation of lending to all public authorities;
- equipment with monetary policy instruments that are oriented towards a free market economy;

Seat of the institution

- to be decided.

19. The institutional requirements for an effective conduct of economic policies should be assessed in the light of the functions which will be performed at the Community level. As pointed out in the previous section, there are three broad areas in which the Community has to be involved: firstly, the establishment and maintenance of a single market for persons, goods, services and capital; secondly, the formulation and implementation of common policies aimed at strengthening and balancing the process of market integration; and thirdly, co-ordination of national fiscal policies with a view to promoting prudent fiscal behaviour, avoiding inappropriate divergences between national fiscal policies and formulating a macro-fiscal policy stance of the Community.

The necessary institutional framework for performing these three tasks is already in place with different, though partly overlapping, functions being conferred upon the Council, the European Parliament, the Commission and the Court of Justice. In order to ensure a flexible and effective conduct of policies in those economic areas in which the Community is involved, two basic requirements have to be fulfilled: firstly, to the extent that policies are decided and enacted at the Community level, there must be a clear distribution of responsibilities among the existing Community institutions, with due regard to whether decisions relate to the setting of broad policy directions or to day-to-day operations in the light of current developments. Secondly, in those areas in which the Community's role is restricted to the co-ordination of national policies, its task must be guided by a system of rules which are accepted by, and can be applied to, individual member states.

In order to be able to carry out the functions within the existing institutional framework, the Community bodies must possess adequate instruments and means. As far as the implementation of the single market is concerned, the necessary procedures and arrangements have been laid down in the Treaty of Rome and the Single Act, conferring upon the Community the executive and judiciary authority to put the internal market programme into operation.

With regard to common policies aimed at strengthening the functioning of the single market, foundations for a more effective Community role in regional and structural policies have been put in place recently, involving both a doubling of the resources of structural funds and a reorganisation of policies. At a more advanced stage of the process these mechanisms might be further extended and made more effective.

In order to enable the Community to co-ordinate its member countries' fiscal policies, new procedures will have to be developed which result in a joint decision-making on the overall stance of fiscal policy, i.e. the size and the financing of the aggregate budgetary position in the Community. In this context the Community must be given the possibility of influencing directly the budgetary policies of individual member countries through a system of rules and by collective decisions. However, given the fact that the ultimate budgetary decision-making power will rest with national parliaments, the system of rules will serve essentially as a framework for increasing the transparency of the co-ordination process

which, for example, through public announcement of limits on budgetary positions, could help to exert greater peer pressure.

While the involvement of the Community in non-monetary policies will be based on the existing institutional setting, it is paramount that the ensuing policy decisions result in a coherent and consistent set of measures which clearly signal the Community's policy stance. Without an unequivocal formulation of non-monetary policies, most of all in the fiscal field, the responsibility for macro-economic policy for the Community as a whole would fall virtually entirely on the European system of central banks. This would not only cede too great a responsibility to the monetary authorities, it would also leave the Community with a single macro-economic policy tool and therefore significantly impede an effective policy geared towards stability and growth.

20. The new Treaty laying down the programme, procedures and organs of the economic and monetary union will create a situation in which the existing institutions of the Community (European Council, Council of Ministers, European Parliament, Commission, and Court of Justice) will be supplemented by a new institution of comparable status, the European system of central banks. Relationships and interactions between these bodies will have to be defined not only to build a consistent institutional architecture, but also to ensure an appropriate procedure of consultation and co-ordination between fiscal and monetary policies. The consultation procedure should be respectful of the fact that each institution is clearly entrusted with policy responsibility in its own field of the economic and monetary union. The procedure could include a yearly joint assessment of the overall economic and monetary situation and prospects, and the formulation of a general policy guideline for the year to come. This could be done by the European Council in the framework of a periodic review of the advancement and situation of the economic and monetary union. In addition, the Chairman of the ESCB Council could attend the meetings of the European Council and vice versa.