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THE EUROPEAN UNION, ITS ECONOMIC AND MONETARY UNION, AND THE (APPARENT) PERCEPTION OF CRISIS REFLECTED IN IMMEDIATE REGULATORY ACTIONS

Abstract: While neither its institutional, nor legal arrangements fundamentally contributed to the emergence of the Eurozone crisis in the late 10's of the 21st Century, the crisis exposed significant weaknesses of the EU economic governance, especially its inability to achieve a sustainable level of budgetary discipline. The crisis in particular highlighted the existing divisions of the EU Member States into different integration groups having divergent interests. Notably, it sharpened the division between the Eurozone states and non-Eurozone ones, as well as between the creditor-countries and debtor-countries. The EMU reform agenda adopted after 2008 gave more weighting to the interests of the former states. The emerging post-2008 economic governance-reform arrangements also gave more weight to the ECOFIN Council, at an expense of the European Commission. In the resulting institutional setting, the main aim of the EMU reform agenda was to assure the stability of the Eurozone and to reinforce its resistance to economic shocks. In this context, however, benefits arising from the reformed EMU are unevenly distributed, as they are more likely to avail the Eurozone countries than non- Eurozone countries, and more the creditor countries than the debtor ones.

Keywords: EMU, the euro, economic policy coordination, Eurozone, Eurozone crisis, financial crisis

1. Introduction

Every crisis is about frustration of expectations. To deem any such frustration 'a crisis' requires either it to have dramatic pace or/and significant enough scope. Moreover, the terms usually has a negative emotive value as it denotes such a change in which a reason for frustration exists, i.e. to such a qualification of that change which falls grossly of expectations. This frustration can lead to a vicious circle, as it may affect the attitudes and actions of people, thus reinforcing their frustration.

In financial terms, crisis can be defined as an abrupt deterioration of the financial system in performing its fundamental economic function, i.e. in providing liquidity, which, in turn, makes it possible for economic inputs and outputs to be adequately allocated throughout the national or extra-national economy, thus making it possible to employ economic factors in the most socially productive way. In consequence, the term 'economic and/or financial crisis' can denote a crisis in which the frustrated expectations relate to the functioning of one of the most important elements of economic or financial governance, and which in part, or even entirely, turns into a process of that governance delegitimisation.

2. The international economic and financial crisis and the Eurozone

The Eurozone, conceived as an area with a single currency and a single monetary policy, is not a structure that can be qualified as being prone to crisis. Yet, all EU member states, and, in this context, Eurozone countries, have experienced calamities of financial nature. Many called these setbacks to be 'of the Eurozone'. However, these should be referred to more accurately as crises 'in the euro zone', as they manifested themselves in a chronic slowdown in the economies of many countries often associated with the increased debt of the public sector.

One may also interpret this slowdown and/or public debt burden problem as a crisis of stabilisation mechanisms that, in fact, overstretched the Eurozone economic governance system to its limits and triggered its significant reform programme. Thus, a Eurozone crisis may also be perceived as the crisis of that system, i.e. the Treaty-established institutional and procedural mechanisms intended to provide financial and monetary (and, thus, economic) stability, often perceived to be symptoms of a wider dysfunction of the whole integration project represented by the Union.[1] This view presupposes that a Eurozone crisis is only a proxy for wider crises exposing deeper, most likely system-wide problems within the European Union.[2]

2.1. The characteristics of the 2008 crisis in the Eurozone

The crisis that emerged in 2008 was basically the consequence of the limited availability of loanable funds within the global financial system. Therefore, from the EU perspective, it had an exogenous nature. With the shortening of supply of internationally available funds, they became costly, i.e. the interest rate charged on them increased significantly. In consequence, this exposed the vulnerability of many national financial systems to such an increase of interest rate, as economic operators (both public and private) lost their ability to borrow money and to pay interest due on their debt. In Europe, this situation triggered a number of consequential negative phenomena. Most importantly, it exposed all the weaknesses of the Eurozone institutional and procedural arrangements meant to protect it from such a situation, including the ceilings on public deficits (Article 126 TFEU) and the requirements of macroeconomic (especially fiscal) discipline (most importantly, Article 121 TFEU), as well as the overall banking sector-related safety net. It is quite relevant to note that these shortages had long

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1 See e.g. P. Bagus, *The Tragedy of the Euro*, Mises Institute, Auburn 2011.

2 See J.J. Story, *The Euro Crisis and German Primacy*, [in:] D. Dăianu, G. Basevi, C. D'Adda, R. Kumar (eds.), 'The Eurozone Crisis and the Future of Europe: The Political Economy of Further Integration and Governance', Palgrave, Basingstoke 2014, p. 109--125; A. Hoffmann, A.E. Köhler, *Ursachen und ordnungpolitische Konsequenzen der Finanzkrise*, [in:] P. Altermiks (eds), 'Im Schattzen der Finanzkrise. Muss das Staatliche Zentralbankwesen absechafft warden?', Olzog, München 2010, p. 103-134.

been identified and debated (e.g. with regard to the fiscal institutional and procedural arrangements[3]; with regard to the banking sector safety[4]).

In fact, so construed, the crisis was attributable to the practice of interpretation and enforcement of these Treaty provisions being far from even for all EU member states. The said arrangement was under a serious (and failed) stress-test in 2003-2004 when, simultaneously, France and Germany were subject to Article 126-based excessive deficit procedure (EDP), within which the Commission attempted to adopt a decision specifying detailed economic policy goals and objectives for these two countries. The Commission's attempts were countered by both countries as, despite of the fact that no Member State is able to vote on its own EDP-related matters, Germany was able to vote on the decision pertaining to France, and *vice versa*. As a result, the Commission-proposed decision was amended so significantly that it was made virtually ineffective, i.e. it lacked the effectiveness intended to bring the deficits produced, respectively, in France and Germany, to an end. The Court of Justice attempted to mitigate this impact, yet with no firm and decisive result. Nevertheless, in its attempt to preserve the integrity of the EDP, the Court insisted on the consequential implementation of all the ECOFIN recommendations and decisions made in order to restore budgetary equilibrium in the EMU member states.[5]

In response to what could be interpreted as an abuse of the EDP, the Commission initiated its successful overhaul meant to address its most imminent shortcomings that eventually was implemented in 2005. The reform intended to make the EDP a more flexible instrument adequate to address any emerging fiscal policy issues in a more appropriate manner. Most importantly, the reform included:

a. reorienting the national economic policy assessment at the EU level onto its medium-range objectives,
b. modifying the analytical framework of the fiscal convergence criteria assessment to make it more concerned with the sustainability of underlying economic circumstances,

[3] See B. Eichengreen, *A more perfect union? On the logic of economic integration,* [in:] B. Eichengreen, 'European Monetary Unification: Theory, Practice, and Analysis', MIT Press, Cambridge 1997, p. 247-270.

[4] L.B. Smaghi, D. Gros, *Open Issues in European Central Banking*, Macmillan, Hampshire 2000, p. 29-54.

[5] *Commission v Council*, C-27/05, Judgment of 13.6.2004, ECLI:EU:C:2004:436.

c. taking more adequate account of national-specific developments which either are of ephemeral nature (and therefore should be adequately discounted) or have a complex development format which has to be considered with more analytical sophistication,
d. setting out more detailed rules concerning the correction of excessive deficits (the ratio of which was set at 0,5% GDP *per annum*),
e. providing for more specific rules concerned with the intensification of EDP-related measures under Article 126 TFEU.

Even after a major overhaul in 2005, the EDP proved not to address the constraints resulting from the 2008 global financial crisis in a satisfactory manner. Most importantly, the EDP failed to function as a framework for reference in shaping respective national policies which were, first and foremost, intended to mitigate negative impact of the macroeconomic slowdown, to maintain internal liquidity of national budgets, and to save banking sectors. In other words, the EU countries reacted to the tensions and constraints produced by the 2008 crises by intensified liquidity-injecting actions that required an extensive recourse to public budgets. The aftermath of these neo-Keynesian actions was massive public debt burden in these countries. This phenomenon was not unique to the EU, as indicated in Table 1.

Table 1. Budgetary deficits in selected EEA states and the USA (2008-2015; % of GDP)

Country	2008	2009	2010	2011	2012	2013	2014	2015
Austria	-1.0	-4.1	-4.5	-2.4	-2.6	-1.5	-2.8	-1.3
Belgium	-1.1	-5.6	-4.0	-4.0	-4.1	-2.7	-2.1	-1.2
Czech Republic	-2.2	-5.8	-4.7	-3.2	-4.2	-1.5	-2.1	-2.6
Denmark	3.3	-2.8	-2.7	-2.0	-3.9	-0.9	-1.5	-3.0
Estonia	3.0	-2.0	0.2	1.1	-0.2	-0.2	-0.2	-0.1
Finland	4.3	-2.7	-2.8	-1.0	-2.2	-2.5	-2.2	-0.9
France	-3.3	-7.5	-7.0	-5.2	-4.9	-4.3	-3.8	-3.1
Germany	-0.1	-3.1	-4.2	-0.8	0.1	0.0	-0.2	0.2
Greece	-9.9	-15.6	-11.0	-9.6	-8.9	-12.7	-2.5	-1.4
Hungary	-3.7	-4.5	-4.4	4.2	-2.2	-2.3	-2.9	-2.9
Iceland	-13.5	-9.9	-10.1	-5.6	-3.8	-2.1	-2.0	-2.1
Ireland	-7.4	-13.7	-30.6	-13.0	-8.1	-7.0	-4.7	-3.1
Italy	-2.7	-5.4	-4.4	-3.6	-2.9	-2.8	-2.7	-2.1
Luxembourg	3.2	-0.7	-0.8	0.2	0.0	0.1	0.3	-0.9
The Netherlands	0.5	-5.6	-5.0	-4.3	-4.0	-2.4	-2.7	-2.0
Norway	18.8	10.5	11.1	13.6	13.9	11.1	10.7	10.2

Country	2008	2009	2010	2011	2012	2013	2014	2015
Poland	-3.7	-7.5	-7.8	-5.1	-3.9	-4.3	5.6	-2.9
Portugal	-3.7	-10.2	-9.9	-4.3	-6.5	-5.0	-4.0	-2.4
Slovakia	-2.1	-8.0	-7.5	-4.8	-4.5	-2.8	-2.7	-2.6
Slovenia	-1.9	-6.3	-5.9	-6.4	-4.0	-14.7	-4.1	-2.6
Spain	-4.5	-11.1	-9.6	-9.6	-10.6	-7.1	-5.5	-4.5
Sweden	2.2	-1.0	0.0	0.0	-0.7	-1.3	-1.5	-0.8
Switzerland	2.0	0.8	0.3	0.7	-0.2	0.1	0.1	0.3
United Kingdom	-5.1	-11.2	-10.0	-7.9	-6.3	-5.9	-5.3	-4.1
Euro area	-2.1	-6.3	-6.2	-4.1	-3.7	-3.0	-2.5	-1.8
OECD countries	-3.5	-8.4	-8.0	-6.5	-5.9	-4.6	-3.9	-3.2

Source: OECD data, 2015

A significant degree of budgetary deficit and consequential debt was accumulated in the countries of southern Europe. Moreover, a not very sustainable 5% GDP level of deficit also came about in the countries of the northern EEA: Iceland, the United Kingdom, Belgium and the Czech Republic (2009), as well as in France and in Poland (in the years 2009-2011, Poland also again in 2014). Not surprisingly, many countries were subject to the EDP, as indicated in Table 2. Yet, it is quite important to note that a proper interpretation of the data offered in it can only occur if a proper account of difference is made in the application of the EDP in the Eurozone and in the non-Eurozone member states. In the former, public budget is required to be balanced, whereas in the latter, a 3% GDP public budget deficit threshold is allowed. Moreover, the most punitive measures (based on Article 126 TFEU), which force the countries subject to the EDP to apply appropriate adjustments to their economic policies, as formulated in detail by the Council, are applied only to countries of the euro zone.

Table 2. EU countries covered by the EDP

Country	Years in which country was covered by the EDP
Austria	1998–99, 2001, 2004, 2008–
Belgium	2008–
Bulgaria	2009–10
Croatia	No
Cyprus	1998–99, 2001–04, 2009–
Czech Republic	1998–2003, 2005, 2009–
Denmark	No
Estonia	1999
Finland	No
France	2002–05, 2007–
Germany	1998–99, 2002–05, 2008–10

Country	Years in which country was covered by the EDP
Greece	1998–
Hungary	1998–99, 2001–10
Ireland	2008–
Italy	2001–06, 2008–
Latvia	1999, 2008–
Lithuania	2000–01, 2008–
Luxembourg	No
Malta	1998–2004, 2008–
The Netherlands	2003, 2009–
Poland	1998, 2001–06, 2008–2015
Portugal	1998–
Romania	1998–2001, 2008–
Slovakia	1998–2002, 2006, 2009–
Slovenia	2000–01, 2009–
Spain	2008–
Sweden	No
United Kingdom	2003–05, 2008–

Source: European Commission data, 2015

When viewed retrospectively over a period of 10 years between 2000 and 2010, the increases in the majority of the countries reflect the penchant for an increase of expenditures by what can be called deficit-floating, i.e. maintaining it on a significant level over a long period of time. In the countries in which this penchant occurred, increases in volume of public debt accelerated after 2008. For example, a comparison of data from the years 2000, 2005 and 2010 indicate that the levels of debt (expressed as a % of GDP) increased from 13.2, to 23.2 and then to 36.6 in the Czech Republic, or 47.4, 63.3 and 67.4 for France, or 108.9, 110.6 and 147.8 for Greece, or 54.1, 58.1 and 73.9 for Hungary, or 34.8, 23.5 and 60.7 for Ireland, and 52.1, 66.2 and 88.0 for Portugal. Table 3 presents more detailed year-by-year data for the EEA countries.

Table 3. Levels of public central government debt in the years 2000-2010 in selected EEA countries (% of GDP)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Austria	61.2	60.7	60.4	60.9	62.2	62.1	60.4	57.8	59.3	64.9	65.8
Belgium	99.5	99.1	97.9	95.4	92.8	91.8	87.6	85.3	90.1	94.9	96.8
Czech Republic	13.2	14.7	16.1	19.1	21.1	23.2	24.9	25.2	27.1	32.5	36.6
Denmark	54.8	52.0	51.6	49.6	47.0	39.3	32.7	27.8	32.3	37.9	39.6
Estonia	3.3	2.9	3.6	3.1	2.6	2.1	1.8	1.3	1.8	3.6	3.2
Finland	48.0	44.4	41.3	43.5	41.9	38.2	35.6	31.2	29.5	37.5	41.7
France	47.4	48.3	49.9	51.9	52.6	53.3	52.1	52.1	53.4	61.2	67.4
Germany	38.4	36.5	37.2	38.5	39.9	40.8	41.2	39.6	39.6	44.2	44.4
Greece	108.9	109.7	109.2	105.8	108.6	110.6	107.7	105.7	110.6	127.0	147.8
Hungary	54.1	50.4	53.5	56.2	55.7	58.1	62.0	61.6	67.7	72.8	73.9
Iceland	33.8	39.2	35.3	33.3	28.2	19.4	24.8	23.2	44.2	87.5	81.3
Ireland	34.8	30.9	27.9	26.9	25.3	23.5	20.3	19.8	28.0	47.1	60.7
Italy	103.6	102.7	99.5	96.7	96.3	97.7	97.5	95.6	98.1	106.8	109.0
Luxembourg	3.2	3.1	2.7	1.7	1.4	0.8	1.5	1.4	8.2	8.5	12.6
The Netherlands	44.1	41.3	41.5	43.0	43.8	43.0	39.2	37.6	50.1	49.7	51.8
Norway	19.3	18.1	19.0	21.3	18.4	17.2	12.5	11.7	13.9	26.4	26.1
Poland	35.8	36.4	40.6	44.9	43.6	44.8	45.1	42.6	44.7	47.0	49.7
Portugal	52.1	54.0	56.7	58.3	61.0	66.2	67.7	66.6	68.9	78.7	88.0
Slovakia	23.9	36.0	35.0	35.1	38.4	33.1	29.2	28.1	26.3	33.7	39.1
Slovenia	..	..	..	26.9	27.1	26.9	25.8	23.2	21.2	33.6	36.0
Spain	49.9	46.3	43.9	40.7	39.3	36.4	33.0	30.0	33.7	46.0	51.7
Sweden	56.9	48.6	46.8	47.7	46.6	46.2	42.2	36.4	35.6	38.1	33.8
Switzerland	25.6	24.8	28.2	28.3	28.1	28.1	25.2	23.2	22.4	20.7	20.2
United Kingdom	42.2	38.8	39.1	38.7	40.0	43.5	43.2	42.7	61.1	75.3	85.5

Source: OECD data, 2015

An important indicator reflecting on the situation in the euro zone is the level of external debt, i.e. the debt whose creditors are not domiciled within the area of imperious sovereignty of the governments of the countries with these debts. In 2009 (the first year of the crisis on its full scale), the situation in this respect for the most indebted countries was as follows. The table below also shows the data for Germany for the purposes of comparison purposes:

Table 4. External debt of the EU's biggest debtors in 2009

	Net external debt/GDP (%)	Total external net government debt/GDP (%)
Portugal	88.0	674.4
Greece	82.5	78.9
Spain	80.6	47.3
Ireland	75.1	70.6
Italy	37.3	42.9
Germany	- 21.7	48.5

Source: R. Cabral, *The PIGS' External Debt Problem 2009*, VoxEU.org, (accessed 10.5.2015)

In other member states, recorded levels of external debt were lower than was the case in Portugal, Greece, Spain and Ireland. In the group of countries in debt, Italy's debt structure was by far the healthiest.

The structure of creditor-debtor relations also sheds important light on the debt levels of individual EU states. This issue is presented in Table 5 above, which focuses exclusively on the most essential of those relations, taking into account the amount of debt/lending. The key countries in the loan funds market within the EU are Greece, Ireland, Italy, Spain, Portugal, the United Kingdom, France and Germany. On the creditors' side (represented by financial and public finance institutions), the largest liabilities are owed to France, Germany, and to a lesser extent the United Kingdom. The major debtors are Greece, Ireland, Italy and Portugal.

Table 5. Banks and governments: debtor and creditor countries in 2010 (in bn USD)

Debtor Creditor	Greece	Ireland	Italy	Spain	Portugal	UK	France	Germany	Total debt
Greece	-	8.5	6.9	1.3	9.7	15	75	45	236
Ireland	0.8	-	18	16	22	188	60	184	867
Italy	0.7	46	-	47	5.2	77	511	190	1400
Spain	0.4	30	31	-	28	114	220	238	1100
Portugal	0.1	5.3	6.7	86	-	24	45	47	286
UK									
France									
Germany									
Total	2	89.9	62.6	150.3	64.9	418	911	704	

Source: Fidelity Investments, Strategic Advisers 2010; quoted in Stein*.

* Jerome L. Stein, *The Diversity of Debt Crises in Europe*, [in:] D. Dăianu, G. Basevi, C. D'Adda, R. Kumar (eds.), 'The Eurozone Crisis and the Future of Europe: The Political Economy of Further Integration and Governance', Palgrave-Macmillan, Basingstoke 2014, p. 29.

It is possible to conclude from Tables 4 and 5 that Portuguese debt has been dispersed most securely and has not accumulated with the creditors indicated in Table 5; however, one may also observe that Portugal's largest creditor in that group is the indebted Spain. The Irish debt has to a large extent accumulated in the United Kingdom and Germany, while the Spanish debt (like that of Greece) is in France and in Germany.[6] Therefore, these countries have the largest stake (and interest) in influencing the current order of economic governance in the European Union, including the decisions made within the procedural framework adopted for governing the euro zone. Thus, it is quite possible to say that the 2008 crisis emphasized asymmetries among the EU member states. These asymmetries emerged not only in the opening stances respective countries had at the dusk of it, but also in the consequential reactions their economies produced to EU-uniform legislative response to the crisis (as it was shown in the case-by-case studies published in the monograph edited by Daniel Dăianu, Giorgio Basevi, Carl D'Addy and Rajeesh Kumar[7]).

3. The Euro Zone crisis as a crisis of the EU economic governance system

The Maastricht Treaty left Member States' fiscal policy outside the exclusive competence of the EU. It placed it within the framework of an open method of coordination that in the post-Lisbon legal order falls within the realm of the EU coordinating powers (Article 5 TFEU). This framework has, over the post-Maastricht years, been expanded considerably – mostly by virtue of EU secondary legislation. These rules are intended to form a mechanism preventing economic (especially fiscal) policies that would have the effect of generating excessive deficits and public debt. They may also be interpreted as:

a. a mechanism meant to gauge and support non-Eurozone countries to meet convergence criteria and, above all, to meet

[6] J. Horváth, M. Šuster, *European Sovereign Debt Crisis and the Euro*, [in:] D. Dăianu, G. Basevi, C. D'Adda, R. Kumar (eds.), 'The Eurozone Crisis…', Palgrave, Basingstoke 2014, p. 40-59.

[7] See D. Dăianu, G. Basevi, C. D'Adda, R. Kumar (eds.), 'The Eurozone Crisis…', Palgrave, Basingstoke 2014.

all other requirements necessary to ensure stable macroeconomic equilibrium;

b. a type of infrastructure by which EMU is stabilized so that no Eurozone internal tensions are created which would undermine that union.

The EU framework for economic governance, created on the basis of the Treaty framework results in processualisation of national polices as it makes them subject to standards and EU-level coordination requirements. As a result, member states do not have a completely free hand with regard to these policies, but rather they have to negotiate them out in a coordinating setting provided by the Commission, the European Council and the ECOFIN Council – and within a stable (i.e. not to be changed easily) array of Treaty rules setting forth the fundamental EU value and objectives (see e. g. Article 3 TEU, Article 120 TFEU). The resulting distribution of powers within the said economic governance framework are presented in the following Table 6.

Table 6. Economic policy forms and forums in the EU

GROUP OF POLICIES	Policy area	Form of coordination	Method of coordination	Participants	Procedures
UNIFIED POLICIES	***money supply (euro zone)***	unification for the euro zone	uniform implementation by the ECB	ECB (within the Eurosystem framework)	unified goals – primacy of direct inflation targeting in the treaty
	exchange rate (euro zone)	unification for the euro zone	implementation by the ECB (euro zone); coordination within the Council (for countries outside the euro zone)	ECB (within the Eurosystem); Eurogroup	unified targets – primacy of price stability in the treaty
STRONGLY COORDINATED POLICIES	***money supply (outside the euro zone)***	Treaty rules (obligation to implement price stability) coordination consultation	coordination in the Council consultation in the General Council of the ECB	Member States ECB (General Council) European Council Council Commission	coordination within the framework of convergence programmes – BEPGs

GROUP OF POLICIES	Policy area	Form of coordination	Method of coordination	Participants	Procedures
	exchange rate (outside the euro zone)	Treaty rules (order to implement price stability) coordination and exchange of information possibility of strong coordination within ERM II	coordination within the Council for ERM II, coordination and exchange of information with the ECB	Member States ECB (General Council) European Council Council Commission	coordination as part of the obligation to take into account the interests of other Member States, coordination within the framework of convergence programmes – BEPGs
	competition	unification in the EU dimension	Implementation of market surveillance by national institutions possibility of action by the Commission	Member States Commission	uniform rules in the Community dimension similar rules in the national dimension
	budget	Treaty rules rules of secondary legislation agreed objectives information common assessment (peer review)	coordination within the Council	Member States European Council Committee Council Eurogroup	Procedures of Stability and Growth Pact: - mutual monitoring of the economic situation - avoidance of excessive deficit

GROUP OF POLICIES	Policy area	Form of coordination	Method of coordination	Participants	Procedures
	structural	Treaty rules and the secondary *acquis* agreed rules and practices	coordination within the Council executive supervision of the Commission	Member States Council Commission	
LOOSELY COORDINATED POLICIES	***wage costs***	dialogue exchange of information	special common entities	social partners Commission Council ECB	macroeconomic dialogue (Cologne Process)
	labour market	exchange of information identification of best practice guidelines common assessment (peer review)	coordination within the Council	Member States Commission Council social partners	Employment Guidelines within the Luxembourg Process

GROUP OF POLICIES	Policy area	Form of coordination	Method of coordination	Participants	Procedures
	goods and capital market	exchange of information identification of best practices guidelines common assessment (peer review)	coordination within the Council	Member States Commission Council	reports on economic reforms as part of the so-called Cardiff process
	international aspects of economic policy	coordinating views/positions or common position	common forms of representation – also the representation of the Commission	ECB Eurogroup Commission	obligation to maintain price stability in negotiations regarding the international monetary order

Source: Updated concept by A. Nowak-Far*.

* A. Nowak-Far, *Pakt Stabilności i Wzrostu: Funkcje, działanie i przyszłość* [Stability and Growth Pact: Functions, performance and future], C.H. Beck, Warszawa 2007, p. 100.

From the very beginning (i.e. from the moment of adoption of the Maastricht Treaty), the Council has played a dominant role in procedures aimed at stabilising the euro zone. The strong position of the Council underpins the strong (yet theoretically informal) position of the Eurogroup, as this body is a functional emanation of the Council (as the material presented in Table 7 indicates).

Table 7. ECOFIN Council EMU-related powers under the Treaty on the Functioning of the European Union

Legal basis	Scope of Council competence
Article 121	**Coordination and monitoring of macroeconomic policy** – based on the general guidelines on economic policy (whose draft version was also created by the Council), maintaining joint monitoring of the economic situation and making recommendations to the Member States.
Article 122 clause 1 clause 2	**Extraordinary economic aid** – adopting measures in case of disturbance of Member State economies – allocating funds for EU States suffering from economic difficulties caused by the occurrence or significant threat of a natural disaster or other extraordinary events.
Article 126 clauses 6–8 clause 9 clause 11	**Excessive deficit procedure** – making decisions regarding the emergence of excessive deficit in a Member State and making recommendations to the given State – demanding that the State under the procedure applies specific economic policy measures, and if need be, requesting periodical reports from such a State – using persuasion (sanctions) against member nations failing to apply the mandatory remedies.
Article 133	**Measures necessary for the use of the euro as the only currency** – deciding (together with the European Parliament, in consultation with the ECB) which resources shall be necessary for the use of the euro as the only currency.
Article 138 clause 1 clause 2	**International representation of the euro zone** – expressing common views on matters of particular interest for economic and monetary union for presentation at international levels for relevant financial matters – adopting measures to ensure unified representation (only for the euro zone) in contacts with international institutions and at financial conferences.

Legal basis	Scope of Council competence
Article 140	**The procedure for admitting a Member State into the euro area**
clause 2	– evaluating reports of the European Central Bank and the European Commission concerning the fulfilment of the convergence criteria by States subjected to the EMU–relevant derogation and the repeal of derogation
clause 3	– establishing the currency conversion rate for countries for which the EMU derogation is repealed, and implementing the necessary measures to introduce the euro; furthermore, adopting other measures needed to introduce the euro as the only currency in a given Member State.
Article 219	**International monetary relations** – entering into formal agreements concerning the system of the euro exchange rate against the currencies of third countries (while respecting the principle of internal price stability in the euro area) – adopting, amending or abandoning the euro central rates in the exchange–rate system (also with due regard to the rules of internal price stability in the zone) – defining the general policy of exchange rates against the currencies of third countries (only if (a) no agreement on the system of the euro exchange rate in relation to such a currency has been concluded, and when (b) it does not violate the principle of maintaining internal stability of prices in the euro zone) – deciding about arrangements for negotiation (and ensuring a uniform position within their framework) and concluding contracts relating to the monetary or foreign exchange regime between the EU and one or more third countries or international organisations.

Prior to the financial crisis in the European Union, which began in 2008, the key mechanisms of stabilisation established by EU legislation included the regulatory mechanisms set forth in the treaties (crucially, in Articles 120-127, 136, 142 and 282 TFEU) and in secondary legislation. Most importantly, the latter included a legislative package called the ‘Stability and Growth Pact’ (SGP). The objective of all these regulations has been to ensure efficient functioning and maintenance of the economic and monetary union, in accordance with the plans and assumptions of the EU legislator.

Stabilisation of the Economic and Monetary Union (EMU) is believed to be essential to maintain vitality of this integration formula within the EU.[8] Therefore, during the post-2008 crisis, the original arrangements and instruments intended to provide for macroeconomic stabilisation

[8] S. Korkman, *Economic Policy in the European Union*, Palgrave, Houndmills 2005, p. 18-31.

(mostly the one comprising the Stability and Growth Pact) began to be considered insufficient. Once the significant expanse and depth of the crisis was acknowledged at a political level, the European Union initiated or implemented a range of varied solutions relating to future crisis prevention and to mitigate the negative effects of the then current crisis situation. The European Economic Recovery Plan (EERP) was adopted by the Commission on 26.11.2008 and approved by the European Council in May 2009. It set forth the broad framework for immediate action. In May 2010, the Commission adopted the plan to reform the EU system of economic management at the macroeconomic level. The European Stability Mechanism (ESM) thus became an important element of the new order. This international organisation began functioning under an agreement (adopted out of the EU legal system) signed by all EU Eurozone states, but remained open to non-Eurozone member states, as well. The legal basis for the creation of the ESM was the new Article 136 clause 3 of the TFEU, introduced in the Lisbon Treaty. The main purpose of the ESM was to extend financial support to the Eurozone states that found themselves in a situation of a danger of 'serious financial problems'. In functional terms, the ESM assumed the tasks of the European Economic Recovery Plan (EERP).

Outside the framework of the Treaty, the reform of EMU included the adoption of a number of EU regulations, which, in fact, augmented the SGP regulatory framework in a fundamental way. In this respect, the provisions of the so-called 'Six Pack' and 'Two Pack' are of paramount importance. The Six Pack comprises six binding European Union pieces of EU legislation – all adopted on 16.11.2011[9]:

a. Regulation (EU) No. 1173/2011 on the effective enforcement of budgetary surveillance in the euro area (p. 1);
b. Regulation No. 1174/2011/EU on enforcement measures to correct excessive macroeconomic imbalances in the euro area (p. 8);
c. Regulation No. 1175/2011/EU amending Council Regulation No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (p. 12);
d. Regulation No. 1176/2011/EU on the prevention and correction of macroeconomic imbalances (p. 25);

[9] All six were also published in OJ L 306.

e. Regulation No. 1177/2011/EU amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (p. 33);
f. Directive No. 2011/85/EU on requirements for budgetary frameworks of the Member States.

In Spring 2013, the Six Pack was augmented by the Two Pack consisting of:

a. Regulation No. 472/2013 of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability;[10]
b. Regulation No. 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.[11]

The so emerged stabilisation formula was re-enforced by the Fiscal Compact (FC) and the banking union. The main objective of the former was to strengthen budgetary discipline in the EMU (also by giving this discipline more systemic stability in the member states). The banking union intended to re-enforce the stability and robustness of the EU banking sector. The original initiative for the banking union can be traced back to decisions taken at the Eurozone summit of 29.6.2012. This initiative took the most pronounced form at the European Council meeting of 12-13.12.2012, where it was decided to implement three key initiatives: firstly, the Single Supervisory Mechanism (SSM), secondly, a unified repair, restructuring and orderly liquidation mechanism (the so-called Single Resolution Mechanism, SRM) and, thirdly, a single deposit guarantee scheme.[12] These regulations are complemented by the Intergovernmental Agreement (IGA) on the establishment of the Single Resolution Fund (SRF). All these arrangements are considered to reinforce the 'federalistic' token of the EU.[13] As such, they counterweight the predominantly inter-governmental penchant of the EMU itself.

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[10] OJ L 140, 27.5.2013, p. 1.

[11] OJ L 140, 27.5.2013, p. 11.

[12] See Conclusions of the European Council of 14.12.2012, EUCO 205/12.

[13] See e.g. O. Clerc, P. Kauffmann, *L'Union économique et monétaire européenne. Des origins aux crises contemporaines*, A. Pedone, Paris 2016, p. 295-319.

4. Conclusions

1. The financial crisis in the EU had an exogenous nature as it was not generated by the EU. Neither its institutional, nor legal arrangements fundamentally contributed to its emergence, development or effects. Yet, the crisis exposed significant weaknesses of the EU economic governance, especially its inability to achieve a sustainable level of budgetary discipline.
2. A EU widespread tendency for departing from the EU rules had been signalled in 2003-2004, where France and Germany undermined the EDP force. Hence, this very tendency prompted the Commission to initiate a reform of the Stability and Growth that was enacted by the ECOFIN Council in 2005. However, the reform did not address the most essential weaknesses of the EU economic governance system.
3. The crisis highlighted existing divisions of the EU Member States into different integration groups having divergent interests. In particular, it sharpened the division between the Eurozone states and non-Eurozone ones, as well as between the creditor-countries and debtor-countries. The EMU reform agenda adopted after 2008 gave more weighting to the interests of the former states – which is, to a great extent, a natural penchant.
4. The emerging post-2008 economic governance-reform arrangements also gave more weight to the ECOFIN Council, at an expense of the European Commission. The sources of this institutional bias can be explained by the fact that within the EMU, the dominance of the Council has always been warranted as it played the decisive role in the original SGP and other Treaty instruments meant to ensure EMU stability. Yet, the decisive factor for the enforcement of this bias was that the EU creditor countries had strong interests in ensuring the EMU reform to be performed in an institutional setting emphasizing an inter-governmental mode of agenda-setting and decision-making, if necessary, making use of extra-EU arrangements (e. g. EMS and Fiscal Compact).
5. The main aim of the EMU reform agenda was to assure the stability of the Eurozone and to reinforce its resistance to economic shocks. This aim (and, simultaneously, the desired result) definitely serves collective Community interests. It reinforces the political and economic stability of the EMU project (with its single monetary

policy and single currency) and increases its sustainability. Still, in this context, benefits arising from the reformed EMU are unevenly distributed as they are more likely to benefit the Eurozone countries than non- Eurozone countries, and more the creditor countries than the debtor ones. It also favours EU member states with more open economies than those with less open economies. The more favoured group certainly comprises the largest European economies (i.e. Germany and France) and also relatively small open economies (in particular, countries such as Austria, Denmark or the Netherlands).

6. The European Union's reaction to the crisis marks an example of coordination of the EU's political and legal systems, the course and content of which are determined by the perceptions of direct stakeholders, as well as by their possibilities to adapt to change, and by the pressure of external actors.

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