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June 2007

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Abstract

The introduction of the euro for the IMF is a complex issue. This paper highlights the issues related to the current situation of fragmented representation for the EU which is deemed unsatisfactory. It also explains the stagnation that has prevailed so far in relations between the European Union and the IMF. Finally, it asks in a general way about the future relationship between the IMF and the EU.

The inclusion of the Euro in IMF funds is complex. The issue goes far beyond the seemingly technical aspects of the euro area's integration into the IMF. It is, in fact, a central aspect of Europe's place in the new world order, characterised by the birth of a new equilibrium. This is the meaning of the title of a recent article by Lorenzo Bini Smaghi: 'Powerless Europe: Why is the Euro Area still a political Dwarf?. That such an admission comes from a member of the Executive Board of the European Central Bank (ECB) says a lot about the lack of imagination of political leaders.

Even if one refuses to see the implications for global governance, the current situation of fragmented EU representation cannot be considered satisfactory. The reasons for this situation are clear: to a large extent, this is explained, as is often the case, by the resistance of States to abandon the appearance of power and thus accept the consequences of the transfer of powers to the benefit of a common authority. But things are not so simple: the euro zone group comprises of 13 Member States of the Union, or almost half of them on 1 January 2007. Skills are not equally distributed among Members in the field of Economic and Monetary Union (EMU).

The IMF is a monetary and financial organisation, based on Member States (country-based) and not on currency (currency-based). The creation of a monetary union did not take away the membership of the IMF from the Member States. The addition of European shares in the capital of the IMF, which determines the rights and obligations of its members, with regard to drawdowns on the Fund and determines the voting rights, gives more than 31% of the votes to the European States. There is little doubt that a regrouping of the shares of the EU or of the eurozone would lead to the granting of a smaller overall quota than that which would result from the simple addition of quotas of the Member States. A single representation would result in the loss of control of some of them to Member States of the Union. The question posed by the composition of both the EU and the Eurozone needs also to be resolved.

All this and other reasons explain the stagnation that has prevailed so far, in the form of a kind of benign neglect or pragmatism in relations between the EC and the IMF, as well as informal groups, such as the G7 (G8) where large EU Member States continue to sit alongside EU representation.

It is also the role of the IMF's external structures that is questioned. Will it be an organisation essentially of analysis and advice whose lending task would be reduced to the point of becoming insignificant? Or is this financial role still promised for a potentially important future? In addition, making room for the EU makes it possible to improve the representation of in emerging and developing countries. It is the system of participation in the Fund as a whole, with its outdated balances, which is in question. And yet, it seems that things are moving. Certainly, still modestly if we look at the decisions of the IMF Assembly in Singapore last September, in particular, the increase in quotas, and therefore the voting rights, of four countries: China, Korea South, Mexico and Turkey, but a reform process is now under way and both the quota calculation method and the respective weight of Fund members will have to be revised for 2008. In addition, an advisory group has been set up to ensure anew multilateral surveillance procedure, with the participation of the United States, the euro area, Japan, China and Saudi Arabia.

The Delors Report on Economic and Monetary Union mention is made of the role of the EC in the 'international monetary dialogue', and the assertion that the Community should to be able to speak with one voice at the 'summits of the industrialised countries'. It was noted that in the Maastricht Treaty there is an express reference to the IMF in Article 30 of the Protocol on the Statute of the European System of Central Banks (ESCB) and the ECB, concerning the transfer of foreign exchange reserves from the Member States to the ECB, in the case of Special Drawing Rights (SDRs) and reserve positions on the IMF. However, Article 6 of the same statutes, relating to the international legal personality, mentions the ECB's relations with the international monetary institutions (by which was meant the Bank for International Settlements - BIS) and Article 23, devoted external operations of the Bank, provide for the possibility of relations with international organisations.

In the Treaty itself, Article 111 (ex Article 109) is on external relations and applies only to Member States of the euro area, in November 1998, the Commission made a proposal which included the definition of common positions and the representation of the Community within the Fund. The European Councils of Vienna (1997) and Luxembourg (1998) preferred to engage in a pragmatic way, rather than moving towards the implementation of solutions based on the procedure of Article 111 §47. For the IMF, this amounted to the fact that the country administrator of the EU Presidency expresses the Community or eurozone positions and that, if his country is not part of it, this position is expressed by another director of the Union or, if that State did not have a director, that said position be expressed by a member of his office. According to the European Council, the representative of the Presidency would associate a Commission official with his delegation, which was not accepted by the Fund. On the other hand, coordination between administrators from EU countries and the representative of the Commission in Washington was organised and the IMF granted the ECB observer status entitling it to participate in the meetings of the Board of Directors for a large number of subjects. Additionally, the euro has been included in the basket constituting SDR9, the monetary unit of the Fund, and that its supervision of the policies of the Member States takes into account the existence of the monetary union.

There has been some progress on the community side. A coordination of positions was organised within the IMF subcommittee of the Economic and Financial Committee. On the other hand, coordination within the G7 also concerns the case of problem countries and it has been possible to write that coordination within the G7 is often more extensive and more detailed than coordination between the countries of the Union. Sometimes the G7 'preempts European coordination' and Lorenzo Bini Smaghi adds 'Eurozone coordination usually reacts to IMF and G7 agendas rather than the other way round'.

The President of the ECB replaces the governors of the national central banks of the three European states that are members of the G7 and the euro zone. The Commissioner responsible for EMU affairs does not have automatic access to the G7 Finance debates. The ECB is represented in the informal groups, of which one of the most significant examples is the so-called Basel Committee on Banking Regulation, where it plays an active role. It should also be noted that the ECB became a member of the BIS by subscribing to the capital of the Bank, which had, to accommodate it, modify its statutes by opening them to the membership of a transnational bank (Article 56 BIS Convention).

During the work of the European Convention, the calls for the creation of a single voice for the Union have multiplied. The result is the insertion of Article III-196, contained in a section entitled 'Provisions peculiar to the Member States whose currency is the euro'. The relevant provision is paragraph 2, which provides that 'the Council, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation in international financial institutions and conferences'.

Since the Constitutional Treaty was put on the back burner, there has been no significant contribution from the Community institutions or from the European Council as regards the representation of the European Union. When work began recently on a rescheduling of the Fund's share capital, which was initially limited to redressing the situation of a limited number (four: China, South Korea, Turkey and Mexico), the reactions of some Member States and Central Banks in the Union have been defensive. While accepting the limited changes now being proposed for quota adjustments, the slogan seemed to be: do not change the status quo. Some added that a reform involving the eurozone (or the European Union) presupposed greater progress towards political union. Before his appointment as a member of the Executive Board of the ECB, Jürgen Stark expressed this reluctance in these terms: 'The present level of political integration restricts the development of common, convincing and inherently consistent positions for the euro countries. For that reason close coordination remains for the essential instrument for developing common positions and for attempting to leverage international dialogue'. In measured terms, Bini Smaghi expresses the difficulty of the issues by writing: '... the role of the EU in a potential reform is not straightforward - from neither a global nor an internal European perspective - and requires far-reaching progress in political economic integration'.

A first question, which seems fundamental, is whether the European Union or the eurozone would join the Fund. A second question, or a second group of questions, which is valid for the first as for the second hypothesis: would it be a substitution by the Union (the eurozone) or complementary participation to that of the Member States? Or would the Union (eurozone) be required to exercise the rights of its Member States? A third series of questions concerns seemingly technical modalities, but whose political impact is undeniable. How to determine the quotas and, therefore, the voting rights, of a set whose composition is likely to vary whether it is the eurozone or the EU itself? How to organise decision-making in the community sphere? In the event of failure to reach a common position, can we imagine a vote 'disaggregated' according to the votes cast in the Eurozone or European Union constituency, or only the majority principle for the adoption of a common position? Who would be the spokesperson for the EU (eurozone) in the different organs of the Fund?

Since the EU or the eurozone would replace their Member States in the membership of the Fund but, it is well known, the Fund, also deals with the economic situation of its members. It supervises them by organising examinations or consultations. These tasks are part of the Fund's action to maintain the stability of exchange rates and currency in general and the fight against the balance of payment imbalances. In view of the non-monetary aspects of the activity of the Fund, several authors have pointed out that in the case of shared competences between the Member States and the Community, and even for some of a specific category of competences, according to Article I-15 of the Constitutional Treaty, participation in the IMF must necessarily be mixed, because the eurozone does not have legal personality.

Can we ask the question of EU participation as such in the IMF, on behalf of all its Member States, when some of its Member States have not adopted the euro? This would imply that the credential that underlies IMF participation would be different for ins and for outs. For the latter, the Union (the Community) could appear as the agent for monetary policy issues.

The precedents of joint representation by the EU and its Member States are not convincing because they do not take into account the specificity of the IMF. This is the situation of the European Bank for Reconstruction and Development (EBRD), of which the Member States, the Community and the European Investment Bank (EIB) are shareholders. Each of these partners contributes its share of the capital of the Bank, which is deducted from the Community budget and calculated as a percentage of that capital. The participation of the EU is added to that of the Member States. In the case of the IMF, such an addition is not possible because the share of a member of the Fund results from taking into account economic factors (GDP, the degree of openness of economies) that the Community does not have its own, but as a result of the situation of its Member States.

Representation of the EU or the eurozone in the IMF is part of a larger problem which includes the emerging and developing countries in a globalised world. There is no easy solution to this issue and its negotiation involves both political will and vigilance. If the United States will retain its veto for decisions that require 85% of the vote, the European Union may also exercise this right. It seems essential, to raise the question of the reform of the IMF at the highest level of the EU and the Member States’ political apparatus.

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