The European Economy Cheat Sheet

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What is European Union?

EU is an unique economic and political union betwwen 27 European countries.

The Schuman Plan created on 9 May 1950 **made sure than Germany and France would cooperate in steel and coal production** - neither of them could get enough resources to start producing weapons.

France and Germany gathered enough money to improve their standard of living (building new roads, homes and other buildings to replace those that were destroyed during WWII)

the European Coal and Steel Community (ESCS) was founded in 1951 together with **Luxembourg, the Netherlands, Belgium and Italy**

the European Economic Community (EEC) was founded in 1957 and written down in **The Treaty of Rome**. The treaty contained the agreements upon agriculture, economy and transport. By 1992 twelve countries had joined.

In 1992 there was signed a treaty in Maastricht that decided that from then on the collaboration would be calle ***the European Union*** - many import and export regulations were abolished.

The Lisbon Treaty signed on 1 December 2009 made the EU more democratic and easier to govern.

Brexit = the UK decided by voting to leave the EU (51,9% was the majority). They left on 31 January with a deal called **the withdrawl agreement**.

The EU institutions

the Council of the European Union (Council of ministers))	memebers are not the prime ministers but ministers who vary depending on the subject of meeting
	each country has its own voice in the CoM

The EU institutions (cont)

	role: voice of the EU memeber governments, adopting EU laws and coordinating EU policies
	members: government ministers from each EU country, according to the topic
	president: each EU country holds the presidency on a 6-month rotating basis
	location: Brussels
the European Council	it brings together the EU leaders (heads of states) to define the general political directions and priorities of the EU; decides on the EU's overall direction and political priorities
	it represents the highest level of political cooperation between EU countries
	role: defines the general political direcition and prioriеties of the EU, it nominates and appoints
	members: heads of the states
	location: Brussels

The EU institutions (cont)

the European Commision	there are 27 commissioners, one frm each country, the commissioners do not represent their country, but **the EU as a whole**
	each commissioner is responsible for a different sibject
	the EC makes proposals for European laws and monitors their implamantation by all memebr states
	manages EU policies and allocates EU funding, sets EU spending priorities, together with the Council and Parliamen it draws up annual budget for approval by the Parliament and Council, supervises how the money is spent
	it represents the EU internationally, speaks on its behalf in international bodies, in particular in areas of trade policy and humanitarian aid

The EU institutions (cont)

	role: promotes the general interest of the EU by proposing and enforcing legislation and implementing it as well
	members: a team or college of commissioners, 1 from each EU country
	president: Ursula von Leyen
	location: Brussels
the European Parliament	directly elected by EU voters every 5 years (lastly in 2019)
	the EU's law-making body
	705 members - they do not sit together in the European Parliament, they foin the MEPs (Members of the European Parliament) from other EU countries with whom they agree the most, and so form the European party
3 roles:	**legislative** - passing EU laws, together with the Council of the EU, based on the European Commission proposals

The EU institutions (cont)

	supervisory - democratic scrutiny of all EU institutions, electing the Commission President, examining citizens' petitions and setting up inquiries, discussing monetary policy
	budgetary - establishing the EU budget, together with the Council, approving the EU's long-term budget - the Multiannual Financial Framework
	role: directly elected EU body with legislative, supervisory, and budgetary responsibilities
	members: 705 MEPs
	president: Roberta Metsola
	location: Strasbourg, Brussels, Luxembourg
****the European Court of Justice**	is responsible for ensuring EU lawis being interpreted and applied the same in every EU country

The EU institutions (cont)

monitors whether the countries, citizens and businesses in the EU comply with the EU rules and legislations

location: Luxembourg

Objectives and values of the EU

goals of the EU	to promote peace, values of the EU and well-being of the citizens
	to offer freedom, security and justice without internal borders
	sustainable development based on economic growth and price stability
	economy with full employment and highly competitive market and social progress, and environmental protection
	fight against discrimination
	promote scientific and technological progress
	improve economic, social and territorial cohesion and solidarity among the EU states
	respect culture and language of a country
	establish economic and monetary union, whose currency is euro

Objectives of the EU

forming a customs union	removing all taxes on internal trade in order to discourage EU citizens from buying imports coming from non-EU countries
	common external tariff - tax on the price of imports, it protects the domestic market
freedom of movement	no barriers to the free movement of Gs, Ss, capital and people across the EU borders
common agricultural policy	the idea was that the Europe should produce its own food and not rely on foreign supplies
	it implements a system of agricultural subsidies and other programmes to help out farmers in the EU and improve agricultural productivity
help to less prosperous regions in the EU	provides money, jobs, improves schools, hhousing, roads, etc. (Euro funds)
single European market	created on 1 January 1993

Objectives of the EU (cont)

	EU members removed all remaining barriers to movement and free trade such as forntier checks at custom posts, cumersome importing documents, different national product and safety standards, etc.
	Shengen Agreement - area without any frontier checks at custom posts
Creating of economic and monetary union	7 February 1992 **Maastricht Treaty** - the main focus of that is the creation of a framework for European economic and monetary union

Economic and Monetary Union (EMU) in Europe

Three stage plan for EMU	stages 2 and 3 have proved controversial and UK and Denmark have ipter out of them
1st stage (1 July 1990)	increased co-operation between central banks (new tasks - holding consultations and promoting the coordination of the monetary policies of the Member States - the aim is to achieve price stability
	compete freedom of capital transactions

Economic and Monetary Union (EMU) in Europe (cont)

	improvement of economic convergence
	Economic convergence - process in which economies of different countried become more similar to each other
2nd stage (1 January 1994)	establishment of the EMI (European Monetary Institute)
	main tasks of the EMI - to strengthen central bank cooperation and monetary policiy coordination, and to make the preparations required for the establishment of the European System of Central Banks (ESCB)
	ESCB consists of the ECB and the national central banks of all 27 member states of the EU
	gradual transfer of economic decistion making power from national central banks to the ECB
	increased coordination of monetary policies
3rd stage (1 January 1999)	fixing of conversion rates
	introduction of euro (online)

Economic and Monetary Union (EMU) in Europe (cont)

	conduct of the single monetary policy by the ECB
	entry into force of the Stability and Growth Pact
	Maastricht condition - a stability and growth pact was agreed at a meeting in Dublin in 1996, budget deficit must not exceed 3% of their GDP and nainal debt must not exceed 60% of the GDP, otherwise the country will be penalised
Convergence criteria	they measure progress in countries's preparedness to adopt the euro, and are defined as a set of macroeconomic indicators
	indicators focus on: **price stability, sound public finances, exchange-rate stability, long-term interest rates**
Conditions for the 3rd criteria	**annual average inflation** must be within 1.5% of the rate of inflation of the 3 EU members with the lowest inflation rate

Economic and Monetary Union (EMU) in Europe (cont)

average long-term interest rate over 1 year must be within 2% of rates of the 3 best performing member states in terms of price stability

budget deficit must be lower than 3% of GDP

exchange rates participation in European Exhange Rate Mechanism (ERM II) for at least 2 years without severe tensions and without devaluing against the euro

The European Exchange Rate Mechanism (ERM)

ERM II provides the framework to manage the exchange rates between EU countries and ensures stability.

Participation in ERM II is voluntary thought. Country which wants euro must participate in it for at least 2 years.

ERM II entry id based on an agreement between the ministers and central bank governors of the non-euro area Member State and the euro-area Member States, and the ECB

It covers the following:

central exchange rate between euro and the country's currensy is agreed - currency is allowed to fluctuate by up to 15% above or below this central rate

if necessary the currency is supported by intervention (buying or selling) to keep the exchange rate against the euro within +-15% fluctuation band.

The euro

Euro	the name given to the currency that has replaced the national currencies of the EU member countries
euro area/eurozone	countries using the euro
	it is a monetary union of 19 (soon to be 20) member states of the EU that have adopted the euro as their primary currency
Euro system	the monetary authority of the eurozone
	it is formed by the ECB together with all central banks of countries with euro

ECB

The creation of the ECB was accompanied by the introduction of the euro. The ECB was founded on 1 June 1998.

The seat of the ECB is in Frankfurt am Main in Germany and the President is Christine Lagarde

Its main task is to maintain price stability and to keep the infaltion at a desired level of 2%.

The ECB takes decisions on the single monetary policy and interest rate for the euro area.

ECB together with all central banks of countries with euro for **the Euro system**.

ECB heads the **European System of Central Banks**.

Argument for and against euro

Potential benefits	**reduced transaction costs** - no commission for changing money
	increased European competition - all prices are in euro

Argument for and against euro (cont)	
	reduced exchange rate uncertainty - international trade may become less risky
	lower interest rates - the goal of ECB is to keep the inflation as low as possible
	increased direct inward invesment
Potential costs	**economic misalignment resulting in higher unemployment and/or lower real income growth in some countries** - the value of euro may harm countries at certain times when they would need to alter it
	national governments will no longer be able to use economic policy to control inflation and unemployment in their own countries - ECB setes interest rates and the rest has to obey by them
	changeover costs - though they happen only once