EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

LAW DEPARTMENT

together with

ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES

EUI Working Paper **LAW** No. 2000/7

Euro Spectator: Implementing the Euro

1999

National Reports:
Greek Report/Italian Report

A project directed by:
JEAN-VICTOR LOUIS

BADIA FIESOLANA, SAN DOMENICO (FI)

Printed in Italy in September 2000
European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

National Reports

Greek Report

PANOS KAZAKOS
WITH THE PARTICIPATION OF NIKOS FRANGAKIS

Italian Report

MARINA MANCINI
ELENA RIGACCI HAY
NATALINO RONZITTI

A project directed by:
PROF. JEAN-VICTOR LOUIS

Research assistants:
JULIO BAQUERO CRUZ
STEFANIA BARONCELLI

LIST OF RAPPORTEURS

Herta Baumann. *Assistant – Institute of Political Science University of Vienna*

Eric Clapham. *Stockholm School of Economics*

Louis Chauvel. *Maître de conférences des universités a l'Institut d'Etudes Politiques - Chercheur à l'OSC- Paris*

Régis Chemain. *Maître de conférences à l'Université de Paris X Nanterre - Paris*

Diego Devos. *Conseiller au Service Juridique - Banque Nationale de Belgique- Bruxelles*

Nikos Frangakis. *Director of the EKEME - Athens*

Panos Kazakos. *EKEME - Athens*

Robert Kissack. *Federal Trust - London*

Wim Kösters. *University of Bochum*

Helmut Lang. *University of Vienna*

Jacques Le Cacheux. *Professeur à l'Université de Pau et des pays de l'Adour, Directeur du Département des études, OFCE, Paris - Observatoire français des conjonctures économiques (OFCE), PARIS*

Ingo Linsenmann. *Researcher - University of Cologne*

Manuel López Escudero. *Profesor Titular de Derecho Internacional Público de la Universidad de Granada*

Paul Magnette. *Chargé de recherche au FNRS – Maître de conférences à l'ULB - Bruxelles*

Marina Mancini. *Istituto Affari Internazionali (IAI) - Rome.*

Juan Carlos Monedero Fernández-Gala. *Universidad Complutense de Madrid*

Thorsten Müller. *Researcher - University of Cologne*

Peter-Christian Müller-Graff. *Professor at the University of Heidelberg*

Miguel Poiares Maduro. *IEEI - Lisbon*

Elena Rigacci Hay. *Istituto Affari Internazionali (IAI) - Rome*

Natalino Ronzitti. *LUISS University, special counsellor at the Istituto Affari Internazionali (IAI) - Rome.*

Maria João Seabra. *IEEI - Lisbon*

Ana Isabel Soares Pinto. *IEEI - Lisbon*

Wolfgang Wessels. *Professor at the University of Cologne - Research Institute for Political Science and European Affairs - Jean-Monnet-Chair*

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The working papers *Euro Spectator*. *Implementing the euro* have been realised thanks also to the contribution of the Banque Nationale de Belgique, the Deutsche Fortschungsgemeinschaft and the European Central Bank

GREEK REPORT

Panos Kazakos[*]

With the participation of:

Nikos Frangakis[**]

1. Political Aspects

1.1 Introduction: Debate priorities in Greece

1.1.1 The overriding importance of convergence

The Greek debate on EMU is heavily influenced by the overriding political will to bring Greece into Euroland and, also, by the conviction that the whole framework has to be taken as „given". Therefore direct references and real discussion about the institutional structure, the politics and the problems of EMU itself are not very frequent in the Greek political and academic debate. Usually the debate is centred around the implications of EMU for the Greek economy, for the politics of nominal and real convergence and, somehow less, for the Greek political system and for the overall place of Greece within Europe. The questions addressed are accordingly whether Greece will attain the goal of entering Euroland, why there have been delays in accomplishing the Maastricht-criteria, leaving Greece for the time being outside Euroland or whether the progress achieved is sustainable.

Despite this bias official statements and academic contributions contain several references to the nature and problems of EMU itself. Among the issues addressed are

[*] *Professor - EKEME - Athens.*

[**] *Director of the EKEME - Athens.*

- the implications of the ECB independence for the EU political system (democratic control)
- problems associated with the general economic policy orientation in the EU,
- the importance of the fiscal discipline and the Stability Pact for the Union as a whole,
- the impact of EMU on unemployment,
- the distributional effects of EMU etc.

Additionally there has been some discussion in academic circles about the desirability of EMU for the Union and, of course, Greece as well as about alternative options. In the camp of the moderate left academics EMU has been criticised as a source of unemployment in Europe. Part of the critique has taken the theory of optimum currency areas as a theoretical point of departure (for example L. Katseli, 1992), other have preferred keynesian arguments, emphasising the recessionist bias of the whole EMU-construction (example Pelagidis, 1998). In the context of the Optimum Currency Areas EMU, as agreed in Maastricht, implies a loss of national monetary and, indeed, fiscal policy. One of the criticisms is that member countries will not be able to respond to adverse economic shocks through changes in national monetary policy or the nominal exchange rate or a flexible fiscal policy. It is then argued that asymmetric country-specific shocks will result in a recession and a surge in unemployment.

In reality, the exchange rates only conditionally can help to cope with adverse economic developments and country – specific shocks. Fiscal policy instruments are of questionable usefulness if the problems arise from the supply side of the economy.

Last but not least the critics overlook the benefits to be derived from eliminating the exchange rate risk and increased credibility of the monetary policy. Lower risk and increased credibility are expected to influence interest rates and to encourage firms to produce closer to the Greek markets. It is therefore likely that EMU entry will be favourable to growth and employment in the Greek economy. In more political terms, N. Christodoulakis sees Greece becoming a „gaining“ instead of being a „losing“ society [see for example statements of the deputy finance minister N. Christodoulakis in an Interview to the *Kathimerini*, 5.12.1999).

In the 90s a broad consensus between the major political forces in Greece has been established, that Greece should join EMU3 (Euroland) at the earliest possible date.

The dominant aspect remains however, whether Greece will achieve the declared goal to enter Euroland in 2000. Political reasons seem to play a crucial role. The political leadership is convinced that only through the EMU participation can the country have a say in important community policy sectors „on an equal footing“ with the other member states as Prime Minister K. Simitis repeatedly argues. Participation will also send a clear signal to third countries that Greece is indeed a part of the European gravity centre. Prestige may also play a role: “If we miss the opportunity in 2001 we will have to wait for EMU enlargement and the arrival of Hungary, Poland and the Czech Republic. This would effectively mean losing the advantages of 20 years of EU membership”, as was pointed out by the minister of finance, Mr Yannos Papantoniou (*Financial Times*, 15.11.96. See also the country report on Greece in Johannes Pakaslahti : *Does the EMU threaten European Welfare?* Working paper , June 1997, p. 47.).

1.1.2 EU, EMU and the interest groups in Greece

Interest groups in Greece have probably not been as influential over Greek policy towards EU and EMU as their counterparts have been e.g. in Denmark. Partly this has been so because of the relative weakness of interest groups in matters of fundamental importance for the country; partly it reflects the overriding political will to participate to the EC in the 70s and to the EMU in the 90s. Resistance however has been noticeable and in many cases successful, whenever concrete measures of adjustment to the new environment had to be taken. Successful resistance in connection with a strong populism caused stagnation during the 80s and early 90s. Nowadays, the emerging picture of Greek policy towards EMU, under both liberal-conservative and socialist governments, is of a state determined not to be forced by established interests out of the economic core of Western Europe- the Euroland. As L. Tsoukalis assesses, adjustment

> "has been difficult and rather painful for Greece. Resistance to change from organised groups proved powerful enough to delay the process of adjustment for many years. The forces of reform \ modernisation have now taken the upper hand, although there is still much that needs to be done" ("Greece: Like any other European Country? ", in *The National Interest*, Number 55, Spring 1999).

The following references to the state of convergence in Greece may facilitate a better understanding of public opinion and political and academic debate.

1.1.3 The state of convergence

With the March 1998 decision to devaluate the hitherto hard drachma by 14% and to join the Exchange Rate Mechanism (ERM) as a prelude for joining the

Euro-club by 2001, Greece had to accelerate the nominal convergence reforms as well as structural adjustment. This latter meant an aggressive streamlining of an inefficient and overgrown public sector; liberalising the labour market and reforming the social security system in order to make employment more flexible and increase the retirement age; partial privatisation of state owned companies including state controlled banks; abolition, merger or even closure of overlapping state agencies or non-viable enterprises; and modernisation of the capital and money markets.

During the last few years before the Greek economy has been displaying steady progress in terms of both nominal and real convergence with the rest of the EU economies. Table 1 gives an overview of the progress achieved (IMF, Nov. 1999).

On the "nominal side" public finances moved towards eliminating deficits. On end 1999 the Greek economy is on the road towards accomplishing the Maastricht-criteria for accession to the Euroland. With respect to four of these - fiscal deficit, exchange rate, long term interest rate, debt- the criteria are already satisfied. The General Government deficit in 1999 is at 1.5 percent of GDP a Maastricht requirement of 3 percent. In September 1999 the year-on-year increase of the harmonised CPI was 1.5 percent.

The most noticeable and significant development is that, whereas from 1980 to 1993 the Greek economy was almost stagnating, in the last three years it has grown at a rate significantly higher than the average EU rate. The Greek economy continues to grow, despite the Kosovo conflict and a highly destructive earthquake.

A National Action Plan for the transition from the drachma to the Euro has been worked out and is currently implemented with an aim to minimise the problems of transition. The private sector, especially the banking and business community, makes its own preparations. The Federation of Greek Banks, for example, has been in constant contact with the Banking Federation of the European Union and is currently establishing a training and seminar centre for its employees. The Federation of the Greek Industries has been labouring along the same path.

One crucial problem remains unemployment, which stands in the range of 10-11 percent of the labour force. Although employment is growing steadily this is largely explained by the fact that the labour force is also growing fast as a result of large immigration and increasing participation.

On the structural front several measures have been implemented. On this front however the government meets with hard resistance on the part of organised labour in the public sector and other vested interests as the conflict about reforming Olympic Airways, the ailing state carrier, has shown.

Roughly up to mid 1998 a wave of social unrest in Greece was clearly targeted at EMU, which was made responsible for several undesirable measures taken by the Simitis government. At a major demonstration by civil servants and bank employees held in Athens at the end of November 1996 the dominant slogan was “no to Maastrcht and its criteria” (*L’Echo* 29.11.96).

Until 1997 the overall impression was that despite certain positive measures taken to comply with Maastricht, the government would hardly overcome wide resistance by organised groups against stabilisation (“austerity”) and structural adjustment. The *Financial Times* e.g. stated that events were “fuelling scepticism about Greece’s chances of reaching the targets” (15.11.96). By now, perceptions have changed dramatically. It is widely anticipated that Greece will be admitted into the euro area by June next year so that it can adopt the single currency on 1 January 2001

Despite resistance, progress was steady on the macroeconomic as well as on the structural front. As John Spraos has commented on an IMF-Report (*see Statement by John Spraos*, executive director for Greece, October 20,1999 attached to IMF: *Greece, Staff Report for the 1999 Article IV Consultation*, No 99\131, November 1999), the government, in keeping with Greek tradition and preferences, has followed a gradual course comprising consensual elements. The consensual policy stance slowed down reform progress particularly in the labour markets, but it did not halt them.

Table 1

Greece: Selected Economic Indicators					
	1995	**1996**	**1997**	**1998**	**1999**
Real economy (change in %) GDP	2.1	2.4	3.2	3.7	3.3
EU harmonised consumer inflation (period average)	…	7.9	5.4	4.5	2.3
Unemployment (in %)	10.0	10.3	10.3	10.1	10.3
Investment	18.7	19.4	20.1	21.8	22.8
Public Finance (general government, in % of GDP)					
Overall balance	-10.6	-7.5	-4.0	-2.4	-1.7
Primary balance	2.3	4.5	5.7	6.7	7.0
Debt	110.1	112.2	109.5	106.1	102.1
Interest rates (year average)					
12-month treasury bill rate	15.5	12.8	10.3	11.5	8.8
Balance of payments (national accounts, in % of					

GDP)					
Trade balance	-12.8	-12.6	-12.3	-12.7	-12.5
Current account balance	-2.4	-2.6	-2.6	-2.7	-2.3
Real effective rate (1990=100)	110.2	115.0	116.1	112.9	113.1

Source: Data provided by the Greek authorities; and IMF staff estimates and projections.

1.2 Opinion polls

1.2.1 Eurobarometer and National polls (Sources)

In order to illuminate the latest trends of Greek public opinion towards the EU, and especially the degree of citizen support for the single currency, we took into account the findings of a survey carried out by *MRB Hellas*, a reliable national private institution[1]. Since 1987, MRB Hellas systematically performs public opinion surveys, with a view to tracking the shifts in Greek public attitude and state of mind, regarding current evolutions in the political and economic field.

The most recent survey was conducted on May 1999 and includes a set of questions, concerning a range of issues, such as the perceived state of the Greek economy, the popularity of the government, of the opposition and of other political leaders, the Kosovo crisis and finally the European Union and the June 1999 European Parliament elections. 2000 persons aged over 18, have been sampled, in nine different geographic departments of the country, in a way that the representative value of the final outcome is being ensured. We will focus on the section of the opinion poll, which inquires about the attitudes of the Greek

[1] MRB is member of the "European Society for Opinion and Marketing Research" (ESOMAR) and complies with its standards.

citizens towards the EU and the Euro, comparing, where possible, the results with those of the *51st Eurobarometer Report* of spring 1999.

We should stress in advance that the results of the survey are strongly affected by the war in Kosovo, which began in the end of March 1998. Other events, such as the institutional crisis in the EU and the resignation of the Commission on 15 March 1999, no doubt, will also have influenced public opinion.

1.2.2 Comparing results: The attitudes towards EU in 1999

On the whole, we observe a significant shift in the feelings of Greek citizens, concerning the process of European integration; *public opinion towards the European Union is manifestly less positive on May 1999, than it was at the time of the previous survey on June 1998.*

22,8 % of Greeks are likely to be wary of the EU, while the percentage of citizens that tends to regard the EU as something indifferent to them, stands at 14,1%. This indicates a considerable increase of negative feelings (at around 5 %), compared to the respective levels reported on June 1998. The proportion of people who express a willingness to protest against the EU has also increased from 4% to 7%.

A drop in support levels for the European Union matches the increase in negative attitudes. A considerable decrease in public's interest in the process of European integration is noted (- 11,6 %, since June 1998). At the same time the proportion of respondents that declare their will to participate more actively in the functions and procedures of the European Union stands at 4,1 %, which represents a drop of 12, 6 percentage points, compared to June 1998. More than one in four people (26 %) have positive expectations about the ongoing process of European integration, while the percentage of citizens that feel enthusiastic about the idea of a United Europe remains relatively stable at 4,4 %.

This decrease in support levels should be mainly attributed to the developments in Kosovo and to the way that the crisis was dealt with by the EU. The results of the same poll, regarding the war in Yugoslavia, provide evidence of the extensive opposition of Greek public opinion to NATO's military operations against Yugoslavia. (90 % of the respondents express their total disagreement to NATO bombings). The drop in confidence could also be partly interpreted as a reaction to the institutional crisis in the EU.

Despite the increase in the level of negative feelings, an overall evaluation of the responses reveals that the majority of citizens in Greece tend to be favourably disposed towards the EU and share positive expectations about the European perspective of the country. The proportion of the population that expresses positive feelings outnumbers the proportion of the population with negative feelings. (hope 26,2 %, interest 27,1 %, against a percentage of 28,1 % that is rather distrustful of the EU).

A direct comparison of those findings with the results of the last Eurobaromater's public opinion survey of spring 1999 is not methodologically possible, due to the different form and content of the questions posed.

An inspection of the respective chapter of the *Eurobarometer Report*, which measures the support levels for EU in each Member State, confirms that there is a widespread negative trend. In the spring of 1999, 49% of Europeans regard their country's membership to the European Union as a good thing, a percentage lower than that reported in the autumn of 1998, when 54% of people supported their country's membership to the EU. The Report attributes the drop in confidence to the developments in March 1999, when the Commission resigned after the Committee of Independent Experts published its first report on allegations regarding fraud, mismanagement and nepotism at the European Commission. The war in Kosovo is also mentioned as a further factor, that may have influenced public opinion. It is not surprising to observe that the largest drop in support levels is noted in Greece (- 13). As stated earlier, the level of opposition to NATO's military operations in Kosovo, was much higher in Greece than in other European countries.

On the other hand, the results of the Report suggest that in Greece more than half of the public feel that their country has benefited from European Union membership, while less than a quarter of the population holds negative views. Thus, despite the latest negative trends, Greece remains a country where the benefits from participation of the country in the EU, are considered to be high by its citizens, compared to other EU Members.

1.2.3 Comparing results: The attitudes towards the single currency in 1999

MRB Hellas has measured public support for the Euro in Greece, since June 1998. At the time of the last survey the euro has been in operation for five months. Greece hasn't succeeded in reaching the Maastricht criteria, required for EMU membership by January 1999. The Greek authorities are currently following stability-oriented economic policies, aiming at qualifying for European Economic and Monetary Union by mid-2000.

Support for the single currency in Greece is less solid in May 1999 than in December 1999. 55% of Greek citizens are of the view that the entry in EMU should be the primary goal of the country, while the respective percentage stood at 64,2 % in December 1998. The proportion of people that doesn't regard participation in EMU as a top-priority for the country has increased from 18,8 % to 26,4 %. 12.2 % of the respondents seem to lack an opinion on the matter.

The majority of Greek citizens (66,8 %) share the belief that Greece will succeed in fulfilling the Maastricht's criteria, which will lead to EMU participation by 2001, while 18,9 % of Greeks hold the opposite view.

According to the findings of *Eurobarometer,* concerning the support for the single currency in Member States in the spring of 1999, 61 % of EU citizens support the Euro, while 28 % oppose it. This is slightly lower than in the autumn of 1998, when support stood at 64 % and opposition at 25 %.

There are no reliable statistical data on what public opinion in Greece thinks about the crucial issue of the independence and the accountability of the European Central Bank. Given the fact that most of the discussion about the single currency in Greece has been conducted in national terms, we assume that the public opinion is not very well informed on that particular issue.

EU-wide, support tends to be considerably higher in the countries that introduced the Euro on 1 January 1999 (68 %) than in the four "pre-in" countries (35%). *Although support levels for euro dropped significantly in Greece, it is interesting to point out that people in Greece continue to be more likely to support the single currency than people in the UK, Denmark and Sweden (the three other countries outside the Euro-zone*). Support levels for the Euro in Greece remain above the average level in the EU.

1.3 *Official (government, parties, unions, Central Bank) and academic positions and comments concerning institutional and other EMU-issues*

1.3.1 Introduction. The fora of political and expert debate

Economic and Monetary Union being a drastic regime change there are widespread implications for government, as well as for the activities of market participants and private and public. Not surprisingly the authorities have organised a broad information campaign to make the public familiar with the problems associated with the new monetary-economic regime.

Apart from information campaigns addressing the general public, specific “policy communities” in Greece are involved in processes of opinion exchange and expert meetings thus gaining insights into a wider range of EMU-related policy issues. E.g. the Bank of Greece organised a series of lectures by specialists from EU central banks and treasuries. The lectures were delivered in Athens from October 12, 1998 to May 28, 1999. The meetings addressed questions concerning the monetary strategy in stage three of the EMU, the Stability Pact etc. (The contributions are contained in a volume published by the Bank of Greece and edited by the Vice-governor of the Bank N. Garganas *Framing Macroeconomic Policy in EMU and the international financial architecture*, Athens, 1999).

In February 1999 EMU became also an issue during the parliamentary debate preceding the ratification of the Amsterdam Treaty.

1.3.2 Fiscal discipline. The Stability Pact

The Stability and Growth Pact per se has not been really discussed and therefore questioned in the Greek EMU-debate. The reason is probably that Greece has the status of a "non participating country" as defined in the Growth and Stability Pact. This status is associated with some differences vis-à-vis participating countries in performance (non participating countries are still trying to achieve a

"high degree of sustainable convergence" which participating countries are supposed to have already achieved or have indeed achieved), consequences (sanctions) and, perhaps, influence in monetary affairs. It may be said that the subtle distinction between "convergence programmes" and "stability programmes" reflects these differences.
However, the authorities have not overlooked the probable implications of the Pact for *present*, pre-entry Greek economic policy, since they understand that the public finances have to rise to a situation of *sustainable* fiscal discipline as the Pact has put it in concrete terms for the future.

Still, in the earlier mentioned series of lectures organised by the Bank of Greece the Stability Pact has been the object of a several lecturers. Ron Keller, e.g. discussed the historical origins of the Stability and Growth Pact, its institutional and procedural aspects and the logic underlying the Pact. He argued that the Pact had its roots in the experience which industrial countries have had with exchange rate coordination. According to Keller, attempts to stabilise exchange rates and monetary conditions fail if they are not supported by convergence of economic policy. This lesson from historical experience helps explain why the Maastricht Treaty set out convergence criteria that need to be fulfilled and why the Stability and Growth Pact was adopted.

Judging from the debates generated by the lectures, the academic community in Greece seems to follow the same path of reasoning.

For Greece the Stability and Growth Pact represents an additional challenge beyond that posed by Maastricht. Nicholas Garganas, deputy governor of the Bank of Greece sees in this regard three important and interrelated issues:

> First, to achieve now a sound budgetary position consistent with the Stability and Growth Pact. A speedy reduction in the still high debt-to GDP ratio is part of this task. Another part is ensuring that the automatic stabilisers will be able to play their role. Second, Greece’s ability to respond to “asymmetric” shocks has to be strengthened. Third, the challenge of stepping up the structural reforms should be stepped up to secure Greece’s smooth participation in the euro. (In an *Address* on “Integrating Greece into the Euro Area: The challenges ahead” at the “Athens Summit 1999”, 18 September 1999).

Reducing the debt-to-GDP ratio to 60 per cent will not be easy and is heavily dependent upon deep structural reforms (f.e. upon reforming the social security system, speeding up privatisation and using the proceeds to reduce the debt stock, reducing tax evasion and reforming the wider public sector).

Again according to N. Garganas, it is also important that in the constrained environment of the Stability and Growth Pact the government regains “room for macroeconomic manoeuvring” in case that unfavourable circumstances occur, f.e. asymmetric shocks.

Certainly, as Garganas argues, asymmetric shocks are already relatively infrequent and they will become even more so once Greece joins the euro area:

> “The stability-oriented macroeconomic framework will reduce the likelihood of policy-induced shocks (such as disturbances originating from reckless fiscal behaviour), which in the past have been an important source of country-specific shocks. Moreover, the increasing openness and trade integration of EMU members

> will further blur the economic importance of national boundaries, thereby reducing the national specificity of economic disturbances…..To argue that the incidence of country specific disturbances will diminish is not, however, to say that such shocks will disappear altogether” (ibid).

1.3.3 Independence and democratic control of the ECB

EMU is not simply a matter of economics. It also raises important political questions. They are associated with the institutional innovation of a supranational and independent ECB. The problem of the democratic and, indeed, social deficit of EMU has been again and again raised in the Greek political debate. In 1999 PM K. Simitis grasped the opportunity of the parliamentary debate preceding the ratification of the Treaty of Amsterdam to repeat his government’s position on the political and social aspects of Maastricht and the developments thereafter. The PM understands for example the Treaty of Amsterdam as

> “an important step in the effort to redress the deficits of the Treaty of Maastricht, deficits regarding the democratic function of the institutions, the social policy, the shaping of new policies. The focal point now shifts from economic regulations to social provisions. The citizens of the European Union become the centre of attention. Our main objective was to promote the social dimension of Europe, to stress the need for common strategies and instruments that would combat unemployment and social exclusion. And the result was the introduction of a new chapter on employment. The promotion of high levels of employment is recognised as a top-priority for the Union. There will be a coordination of national employment policies and a mechanism of

> surveillance will be established. An Employment Committee will be created and an Employment Pact is currently being elaborated, as a counterbalance to the Maastricht EMU provisions". (Greek Parliament, *Session protocol* 10/2/1999)

In the same session the Minister of Foreign Affairs G. Papandreou said that

> **"**Regarding the open issue of the accountability of the Central Bank, we as socialists claim that the ECB cannot operate in a political vacuum. There should be democratic control. During the negotiating of the Stability Pact, we gave a battle, in order to ensure that the ECOFIN would have a political control over the ECB. The relevant provisions of the Stability Pact are not ideal, but a step was made towards the right direction…". (Greek Parliament, *Session protocol* 10/2/1999)

The left-wing opposition remained however even after Amsterdam pessimistic as far as the democratic and social aspects of EMU are concerned (ibid).

In an earlier article, L. Tsoukalis, professor of the Athens University and former counsellor of PM A. Papandreou in the late 80s, pointed to the double transfer of power implied by this innovation: from the national to the European level and from politicians to technocrats, thus going even beyond the precedent set by the Bundesbank, if the weakness of the European political system, which in turn means weak political accountability of the ECB is properly considered. Here lie some fundamental political questions.

> "How much economic policy should remain in the hands of elected representatives? This question is, of course, not confined to the EU level. And can there be a central bank without a corresponding political authority? This is, indeed, a question specific to the EU.

> At the European level, what is at stake is about who and how will determine the macroeconomics priorities for the EU as a whole, assuming, of course, that there is still a function to perform for elected representatives. And there is as yet no mechanism for this. The EU budget is very small and with no provision for a stabilisation function. On the other hand, the present system of policy coordination cannot be expected to deliver the goods. The broad guidelines adopted by ECOFIN every year are likely to remain too broad to have any real effect on national economic policies. This means that the future European economic system will tend to be "under-stabilised" against both common and asymmetric shocks” (L. Tsoukalis: *The European Agenda: Issues of globalisation, equity and legitimacy*, The Robert Schuman Centre, Jean Monnet Chair Papers, 98\ 49, April 1998).

Leaving the economic consequences of EMU construction aside, there is a legitimacy deficit of the EU. It is much wider than limited powers of the European Parliament, particularly in monetary matters, indicate. Tsoukalis asks

> “Can we have democracy without a demos? and is it mainly a question of time for a shared European identity to develop? These are big questions generally left out of official documents, but which naturally attract much more attention from academics “ (Ibid).

For Greece, a country currently “out” but preparing to enter EMU, institutional innovations in the domestic front are of equal importance as the establishment of the ECB independence. Recently, and under the pressure of the envisaged entry in Euroland and the relevant Maastricht provisions, Greek authorities have also institutionalised the independence of the Bank of Greece. Past experience has greatly helped to take this decision. Indeed, as Professor Nikos Apergis demonstrated, there is a strong correlation between inflation rates in Greece and the degree of independence of the Central Bank during the period 1975 (in Union of Greek Banks: *Bulletin*, Athens No 18\1999, p. 39-41).

Deriving from earlier research (Mourmouras and Su, 1995) Apergis also reasons that the role of an independent Central Bank is very significant in countries (like Greece) where the prospect of the Economic and Monetary Union underlines the importance that the Maastricht criteria are being met. The central bank as an independent institution, can neutralise attempts to finance deficits.

According to L. Papademos, too, Central Bank independence enhances the effectiveness of monetary policy. The independence of the Bank of Greece has been defined along the lines followed in the case of the ECB (Papademos, 1997).

1.3.4 Policy co-ordination vs. centralisation

It is broadly accepted that EMU demands a closer and more effective coordination of national fiscal policies. In political and academic circles in Greece the whole process of monetary integration and economic policy coordination is expected or hoped to lead to a bigger EU budget with a stabilisation and redistribution function.

1.4 Reactions to current events

1.4.1 Decision of the ECB to lower interest rates (April 1999)

Early in 1999, the economic situation had given rise to concern about downward risks and had led to a precautionary interest rate reduction by 50 basis points on

8 April 1999. The downgrading of the official EU growth forecasts for 1999 from 3,6 to 2,6 per cent seemed to confirm the slowing down of economic performance in Europe.

The decision of the ECB to lower the European interest rates, on the 8th of April 1999, generated positive reactions in the Greek Press. The majority of the analysts shared the view that the lowering of the interest would create a climate of optimism in the European markets, by fuelling hopes for an acceleration of the rate of growth in the EU. (KATHIMERINI: 8/4/1999, TO VIMA: 9/4/1999, KATHIMERINI: 9/4/1999)

According to the relevant articles, the decision of the ECB to cut the European interest rates by 0,5 percentage points, fixing them at 2,50 %, took markets and analysts by surprise, as the latter expected a more modest reduction of 0,25%. (KATHIMERINI: 8/4/1999).

The Greek Ministry of Finance anticipated that the lowering of the European interest rates would have as a result a slight increase in the average rate of inflation in the EU, due to a reflation of the European economy, a development that would favour the effort of the Greek authorities to reach the Maastricht inflation criterion.[2] A growing demand for Greek state-bonds was also likely to occur. (TO VIMA: 9/41999).

According to *the Governor of the Greek Central Bank* Loukas Papademos, apart from the effects produced on the international markets,

[2] In this point it is interesting to remark that ECB's decision of November 4, 1999, to raise interest rates by 0,5 %, setting them again at 3 %, was also greeted favourably by the Greek Press. This recent move is expected to facilitate the course of the Greek economy towards economic convergence and more in particular the alignment of Greek interest rates with those in the euro area, in the run-up to EMU. (KATHIMERINI 5/11/99)

> the move of the ECB was not expected to have a significant impact on the Greek economy. Although the decision was justified by the conditions in the European markets, it has little to do with the Greek monetary policy stance, whose primary aim is to secure a low inflation performance, stated Papademos. (KATHIMERINI: 9/4/1999).

Of some interest is an earlier warning of the spokesman of the Alliance of the Left that the interest rate policy of the ECB cannot offset basic deficiencies of the EMU construction.

> "Europe lacks of a mechanism that would guarantee the equal distribution and diffusion of the positive effects between countries and social groups…. There are no policies that can ensure that the widely-anticipated lowering of the European interest rate will eventually lead to an increase of investment and employment in Europe".**(**Greek Parliament, *Session protocol* 10/2/1999).

1.4.2 Decision of the ECB to raise interest rates (Nov. 1999)

On Thursday, 4 November 99 the ECB announced an increase of the EU interest rates reversing thus its expansive stance from April 1999. The increase was intended to counter the upward trend of the balance of risks to price stability.

The Bank was also convinced that the interest rate increase would not affect growth prospects since the economic environment was considered to be favourable. The Bank was convinced that there was an ongoing strengthening in the Euro area. The outlook for the world economy remains positive; this mainly relates to the sustained growth of the EU economy, but also to the apparent strengthening of the recoveries in South-East Asia and Japan.
Therefore the increase in interest rates would not endanger the resumption of economic growth in the Euro-area. The Bank wanted now to contain inflationary

expectations in a forward-looking manner (which is decisive for ensuring sustainable growth in GDP and employment). It also recommended to member states to make convincing progress in the structural reform of the labour and product markets, which, over the medium term, would enhance the Euro area's production potential and thereby curb upward pressure on process as the recovery proceeds. Together with fiscal consolidation in the context of the Stability and Growth Pact and the necessary moderate wage developments, such reforms could make a crucial contribution towards transforming the current cyclical upswing into a process of longer-term non-inflationary growth (European Central Bank: Introductory statement to the Press Conference, Thursday, 4 November 1999).

A few weeks later the President of the ECB repeated recommendations to member states to accelerate their reform pace. Greek political reactions were as mixed as they were in other member states. Government officials insisted off-the-record that reform issues lied outside the responsibilities of the ECB and that there was an ongoing process of opinion exchange on such matters in the framework of Ecofin Council (*Kathimerini*, several issues in Dec. 1999).

1.4.3 Reactions to the resignation to the German Minister of the Economy

In March 1999 Oscar Lafontaine resigned as Germany´s finance minister. One immediate effect was the rise of the Euro ! Lafontaine represented a neo-Keynesian economic policy stance . He had tried to boost demand in order to cut unemployment, proposed to reform the tax system, by reducing income taxes for low-income earners, while taxing wealthier payers. He did not accept the conventional, mainstream view, that unemployment is fundamentally a structural problem, demanding deregulation of labour markets etc. He called for EU-wide tax harmonization, arguing that moves towards a single tax regime must follow the single currency and that fiscal distortions were inconsistent with an efficient operation of the single market. He also demanded loudly a reorientation of the ECB monetary policy towards lower interest rates thus generating a conflict with the ECB. The latter, preoccupied with the creation of its reputation as a stronghold of monetary stability, did not like to risk being accused that it caved in to political pressures. The priority of “politics” was however Lafontaine´s option.

In Greece Lafontaine´s keynesianism received much sympathy in left wing circles of the ruling socialists and by most of the press commentators. The book co-authored by O. Lafontaine and Christa Mueller *(Don´t worry about globalization-prosperity and work for all*)   has been quickly translated in Greek (Polis editions,1998) and found a strong echo. Lafontaine´s reflections about his political and ideological problems within the socialdemocratic government has also been promptly translated and almost enthusiastically received in the press(1999). The Greek left understood Lafontaine´s resignation as the last worring indication that “politics” were loosing ground to the market forces and to the international finance. The Government, despite some undertones that an expansive, EU-wide macroeconomic policy might have easied austerity, abstained from commenting Lafontaine´s resignation.

1.4.4 The Holzman case and the Euro weakness (November 1999)

In November 1999 the German government (indeed PM Gerhard Schroeder personally) intervened to form together with the German banks a rescue package for the ailing big construction firm Holzman AG. The decision has been heavily criticised inside and outside Germany (see *FAZ*, 26 November 1999) inter alia because it coincided with the fall of Euro against the Dollar towards a 1:1 parity. Some considered both, state intervention in Germany and Euro weakness, to be interrelated phenomena. In an article in the *Wall Street Journal* (3 December 1999) the President of the ECB accused the German Government of undermining through such interventions the credibility of the Euro. Most economic commentators in the media and many economists share this view. Gustav Horn, an economist of the DIW (Deutsches Institut fuer Wirtschaftsforschung) objected that the ECB-President himself gave to the Euro a blow with his public remarks.

Greek commentators registered with sympathy Schroeder´s rescue exercises as well as his arguments in favour of state intervention in cases that the market fails to cope with political desiderata. In the Greek Press commentators insist that the weakness of Euro is caused by factors other than the occasional socially-motivated interventions, even if the latter may occur in big countries. They seem to explain reactions against interventions of the kind decided in Germany as an ideologically-motivated effort to restate the advantages of „anglosaxon capitalism“ characterised by over-liberalisation of markets (see among many other sources reports and comments in the newspapers *Eleftherotypia*, 6.12.1999, *Avgi*, 28.11.1999).

2. Legal Framework

2.1 New Central Bank (Bank of Greece) legislation and preparations related to the introduction of the Euro

Institutional and administrative preparations relating to the introduction of the Euro were somehow delayed because of the late entry of the drachma to the Eurozone.

2.1.1 Technical preparations, legislative acts and implications

Council Regulation 974/98 concerning the introduction of the Euro, is not applicable to Member States benefiting of a derogation. Such being the case of Greece, the country is not bound legally by the single monetary and exchange rate policy, nor by the main acts and decisions of the ECB in this respect. Things are different with Council regulation 1103/97 which also covers Greece: consequently all obligations in the currency of a Member State which is since 1/1/99 participating in the Eurozone have been converted since that date into Euro: the rule of article 3 of Regulation 1103/97 enshrining the principle of contract continuity is of application (Obligations contracted in other currencies are not affected).

Tracking national rules which have to do with the Euro gives few results. The majority of such rules fixes in Euro sums until now denominated in drachma (e.g. Law 703/1977 on competition, as modified by Law 2741/1999, or Bank of Greece's Governor's Decision 2379/96). See also Ministerial Decision 201/96 fixing the programme to issue Eurobonds, or Law 2441/96 fixing the prices for the design of Euro coins. Thus, specific legislative rules involving the Euro up to date have concerned technical issues and not fundamental legal aspects of the introduction of the Euro.

Efforts to modernise the Bank of Greece and streamline operations by introducing institutional, organisational and technical reforms in view of the Bank's future integration into the European System of Central Banks were carried out since 1996. Certain procedures, methods and working conditions were overhauled. Necessary changes were brought about in the organisational structure of several departments. In particular, the deregulation of domestic markets, the conduct of exchange rate policy in an environment of free capital movements, as well as the need to speed up the preparatory work which is required of central banks for the operation of the European System of Central Banks, necessitated adjusting the organisational structure and function of the Foreign Exchange Department to those of the respective departments of the other European Union central banks. The design of the Hellenic Real-time Money transfer Express System (HERMES) has been completed. A specialized section monitors, coordinates, controls and carries out operations related to the function of HERMES, settles matters arising between member credit institutions and monitors cross-border payments (TARGET). Moreover, with a view to contributing effectively to the changeover to the single European currency, the Bank has decided to create a new unit, which in cooperation with the Hellenic Banks' Association, coordinates and promotes preparatory work and supplies the necessary information to the financial community and the public at large.

In the context of renewing mechanical installations at the Bank's Printing Works, the Bank acquired a new intaglio printing press and auxiliary equipment, which became operative in early 1997. This machinery is capable of printing not only drachma-denominated banknotes but also the future Euro notes. Also, for the needs of the Cash Sorting and Counting centres which are soon to be established, the Bank purchased six state-of-the-art machines which sort, count and verify the authenticity of banknotes.

In the area of information technology (IT), a Strategic Plan was finalised and has been implemented. An IT Centre is in place since 1997 and provides the Bank with the necessary infrastructure, ensuring the smooth operation of fund transfers and minimising settlement risks in both domestic and cross – border transactions. Local networks were installed in various units, seven workstations connected with Internet were created, several operations were computerised and the Bank was linked to "Interbanking Systems (DIAS) S.A. " for the safe and prompt transmission of netting entries by credit institutions (Bank of Greece: *Annual reports*, various issues since 1996).

2.1.2 Issues and expected legal problems from the introduction of the Euro

Public discussion about the issues raised by and potential problems expected from the introduction of the Euro has mainly been centered around the chances of Greece meeting the Maastricht criteria and joining EMU on-schedule and, at a lesser level of intensity, around the desirability of such joining, as already stated in this report.

Specifically legal issues have been discussed mainly in technical debate in legal journals and a handful of seminars: the year 2000 is expected to be more discussion-intensive. An overview:

- Secondary Community Legislation does not rule on the full implications of monetary change on existing contracts, although the principle of continuity in contracts is enshrined for reasons of legal certainty and transparence. The real issue is whether this will end up in strengthening the pacta sunt servanda rule of art.361 of the Civil Code or the monetary equivalence rule.
- A further issue results from the degree of responsibility of banks, insurance companies etc. to inform their customers of future changes when they are not in a position to predict themselves final decisions. An example which has proved quite interesting in practice in that respect is the matter of the conversion rate of the drachma into Euro. The central rate fixed at 353, 1 dra/Euro in March 1997 looks likely to change to 340-343 dra/Euro in early 2000.

- While rules to convert shares, bonds and other values in Euro are being prepared, changeover responsibility and specifics remain in a gray area.
- Whenever fixed interest rates have been agreed upon for time-spans stretching into the period of Euro, the interest rates of the drachma after convergence to ECB rates will radically alter the balance between creditors and debtors. Further to agreed renegotiation, or to agreeing changeover clauses before hand, contested cases will have to be treated (having recourse to good faith in contract or to the rebus sic stantibus clause, art. 200-288 and eventually 388 of the Civil Code) under an uncertain body of precedent.
- Insofar as fluctuating interest rates are agreed, with reference to Libor, Fibor, Pibor or one of the other interbank offered rates, such clauses are already void of sense since 1.1.99 when referring to currencies merged into the Euro; since then reference is to be made to rates derived from ECB decisions. Pre-existing contractual clauses will have to be interpreted having recourse to the rules of good faith in contract of articles 200, 288 of the Civil Code. Good business practice, which is also mandated as a basis for interpretation by the Code is of less usefulness, since no sufficient time will have elapsed for such practice to emerge.

2.1.3 The new institutional framework providing for the independence of the Bank of Greece

The Bank of Greece acquired new statutes by law in 1998 (Law 2609\1998). The new Statutes provide for the personal, financial and operational independence of the BoG in accordance with the rules decided in Maastricht (Treaty on the EU). According to the law " the primary objective of the Bank of Greece shall be to ensure price stability. Without prejudice to this primary objective, the Bank shall support the general economic policy of the government" (Article 4 para. 1 of the Law 2609\1998).

Furthermore“ When carrying out the tasks conferred upon them, neither the Bank of Greece nor any member of its decision-making bodies shall seek or take instructions from the government or any organization” (Article 5A Law 2609\1998).

The newly established Monetary Policy Council plays a central role in the new framework. It comprises the Governor of the Bank of Greece, the two Deputy Governors and three other members. The members of the Committee are “appointed from among persons of recognised standing and professional experience in monetary and banking matters” (Article 35A Law 2609\1998). Interest rate decisions throughout the crucial year 1999, when bringing along inflation rate convergence with “price stability” as determined by the ECB and the inflation criterion of Maastricht gave rise to acrimonious public debate, but in fact demonstrated that Central Bank independence was a reality in the run-up to EMU.

On January 1, 1999 the BoG became a member of the European System of Central Banks and its Governor a member of the General Council of the ECB.

2.1.4 The National Transition Plan to the Euro

The Administration is involved to the introduction of the Euro in several respects: as of its responsibility to incorporate Community Law to the national legal order, as of it competence to determine economic, social etc. policies and as of its task to fix the regulatory framework applicable to the private sector.

Consequently a National Transition Plan (NTP) has been formulated, following general directives from and under the guidance of a Committee of Representatives of the Social Partners, of the Bank of Greece, the Universities and all public administrations involved. The NTP closely follows the time-schedule fixed by the Madrid Summit for the introduction with the Euro, along with the political time-schedule for the accession of Greece to the third phase of

EMU. The NTP has been notified to E.C. services so as to ameliorate the common preparation of Greece’s participation.

Preparations for the introduction of the Euro have been quite extensive at a Ministry of Finance level, with groups formed to address:

- The legislative acts needed to rule conversion rates, the rounding-up of prices etc.
- The preparation of the Ministry services, mainly tax authorities, to deal with the public in matters relating to the Euro
- The adaptation of companies’ record-keeping
- The filing of tax returns and the assessment of tax
- The payment of tax, duties and other sums due
- The drafting of the State Budget and all associated documents in Euro: a first partial run of the system was attempted with the 2000 Budget.
- The issuance and convergence of State and public-sector securities
- The adaptation of computer infrastructure and software, along with the preparation for the Y2K shock: since digitalisation and networking has been rather low in Greek public administrations, this aspect was largely faced from 1997 onwards along with the original introduction of computer-based routines throughout the administration.

A public information campaign has been planned for some time, in coordination with the campaigns already prepared and implemented by the European Commission and the ECB at a Europe-wide level, but is still not running.

3. Trends Towards Spill Over

3.1 Spill over: Perceptions on the implications of Euro for other than macroeconomic policy areas

In the following, two kinds of spill over are been considered one at the level of European policy and the other in the domestic context. For example, spill over at the European level is taking place whenever EU-regulation is initiated to protect Europe's single market. Such is the case with tax harmonisation. Spill over at national level is associated with the structural adjustments functionally necessitated (but not formally required) by the EMU.

3.1.1 Introduction: The need for reforms recognised

It is broadly accepted that EMU has wide implications in policy areas that remain in the responsibility of national governments and have not been directly addressed by the Maastricht Treaty such as labour markets policy, state intervention in the productive sector and social policy. Still, EMU and the EU as whole have acted as a powerful catalyst for domestic reform in all member countries. The debate at EU level is running under the heading "conditions for the success of EMU". In Greece the Bank of Greece resumes the debate on structural adjustment inter alia on the occasion of its Annual Report (see Bank of Greece: *Annual Report of the Governor 1998*, Athens, April 1999 and earlier issues). The state budget documents and in particular its introductory volume, published early in November, contain the reform conception for the next year and an overall assessment of the progress made in the past in adjusting institutions and regulations to the new environment.

Greek officials have recognised, in philosophical as well as practical terms, that EMU has a significant impact upon several policy areas. Nicholas Garganas, deputy governor of the Bank of Greece, argues along the lines followed by the Council and the Commission as reflected in the annual exercise of the " Guidelines" that Greece, apart from stabilisation, is faced with the additional challenges of stepping-up the structural reforms required to prepare the economy for the demanding competitive environment of monetary union.

In an Address on " *Integrating Greece into the Euro Area: The challenges ahead"* (at the "Athens Summit 1999", 18 September 1999), Garganas saw structural adjustment as closely interrelated with the need of coping with shocks. To him the incidence of asymmetric/country-specific disturbances will diminish after entry into the Euroland, but this does not mean that such shocks will disappear altogether. Therefore, in adverse circumstances in which a change in the exchange rate or national monetary policy would have been helpful, alternative adjustment mechanisms will have to be provided for so as to respond to macroeconomic disturbances once national authorities have lost monetary and exchange rate independence. He assesses that structural reforms represent part of the solution.

> "On the structural front, there has been much progress in several areas over recent years, and it is beginning to yield substantial benefits to the economy. But, given the breadth and the magnitude of the structural problems, much still remains to be done.
>
> In particular, more stress needs to be placed on enhancing competition in product markets and improving labour market flexibility. Greater market flexibility will not only allow Greece to cope with country-specific disturbances more easily, but it will also, be reinforcing Greece's competitiveness, ensure a tension-free macroeconomic growth process and increase the employment – content of growth.
>
> ……The government's privatisation and flotation programme has been steadily implemented. This has contributed significantly to debt reduction and enhanced competition in the banking system. But, privatisation needs to expand into other areas, including key economic sectors that remain dominated by public enterprises.
>
> Tax reform is also needed to alleviate the tax burden, particularly, although not only, on wage earness, and bring the tax structure into line with that in the euro area, thereby preventing the movement of capital and labour to lower-taxed areas.

> A final important area of structural reform concerns the public administration. Here again, though significant steps have been made, much remains to be dome to provide the country with a truly modern, efficient and flexible state apparatus". (N. Garganas, 1999).

This is indeed an ambitious reform plan.

Structural reforms enjoy the support of the Union of Greek Industrialists (SEB). As the president of the SEB I. Stratos has stressed in many occasions, "sustainable" monetary stability is not thinkable without deep structural adjustments. He would also have preferred a convergence strategy based upon tax and state expenditure reductions instead of the one currently implemented, which relies heavily on tax increases. He is convinced that the problems of fiscal discipline will become acute and even greater after EMU-entry (see Stratos´ statement in the *Kathimerini*, 16.9.1999 and one of his many articles, e.g. the one published in *Oikonomikos Tachydromos*, 18.2.1999).

How far and fast should structural adjustment go? This question has been raised time and again raised inside the governing party and throws a heavy shadow over the reform policy. The Greek Socialists or at least part of them try to locate a "middle way" between the demands of European integration (and, in fact, globalisation) and the traditional principles of social democracy. Thus far they are on the same track with other socialist partners in Europe. Their concerns have been recently debated during the Congress of the Socialist International (October 1999):

On the Greek side PM K. Simitis made several warnings against an "uncontrolled liberalisation" and insisted in defending the social face of governmental policies. The following citations contain the core arguments of his intervention:

> “The “casino capitalism”, which has been striving to replace, and in some respects has indeed replaced, the mixed market economy, has already led to social dislocation, poverty, social deprivation, marginalization, political fragmentation, violence and breakdown.
>
> Globalisation is eroding the cohesion and viability of the state and the capacity of governments to deal effectively with an increasing array of economic, social and political problems in some parts of the world while it is increasing the range of opportunities, the margins of power, influence and wealth in others.
>
> Unregulated market capitalism is proving economically wasteful and social destructive. It erodes mutual loyalty, trust and social bonds upon which free, democratic, solidarity –based societies have been constructed and depend for their survival. It saps the bases of social cohesion and the sources of social solidarity. It gives rise to unacceptably high levels of unemployment and social exclusion.
>
> Faced with these new realities, challenges and risks, we have no other option but to radically readjust our objectives, activity, strategies and methods of action while keeping our fundamental principles, values and philosophy – the values of democracy, solidarity, social justice, equality and progress”.

He added that the socialists should re-examine

> "The significance of interregional cooperation and European integration as alternative, democratic formations to globalisation….. In the context of Europe, this means that we must be able to dominate the intellectual discussion worldwide. For much too long the intellectual debate has been dominated by neo-liberal thinking. It is high time to recapture the intellectual ground.
>
> ….The role of the state remains exceptionally important in this new environment but it differs from the past. It is the role of a "headquarters –state", preserving market competition, reinforcing innovation and research, investing in human resources, guarding over the interests of workers and rights of the citizens, caring for the unemployed and the forthcoming generations. It is a "state-regulator", a "social investment state" not a "state-producer" in the economic domain".

However, he added

> "The main source of wealth and the competitive advantage of every country is today its manpower. The new economy is based on specialisation, flexibility, and adaptability".(Contribution by PM K. Simitis at the Congress of the Socialist International *on " Socialism in the Twenty-first century: The need for a new political agenda"*, Paris, October 20, 1999).

Despite elaborate coding, we discern a contradiction between current policies implying adjustment to the given framework of EMU (and globalisation) and the ideological questioning of precisely this framework.

The Opposition has not missed the point. George Alogoskoufis, one of the most prominent Greek economists and a candidate for a ministerial job (probably as Minister for National Economy if the main Opposition party, New Democracy, wins the next elections) accuses the government of using unreliable figures and of delaying crucial reforms needed to make nominal convergence “sustainable”. According to him, the government has not taken enough steps to liberalise and deregulate the economy and it drives a rather hesitant privatisation course. As Alogoskoufis and other ND spokesmen say the government has often declined to cope successfully with populist resistance (see interviews of G. Alogoskoufis in daily newspapers, f.e. *Kathimerini*, 19.9.1999 and in the magazine *Epikentra* (edited by the Centre of Political Education), September 1999).

New Democracy has long ago adopted a more liberal stance over reform issues. The party favours bolder and occasionally unpopular measures to resolve long-term structural problems of the country in several sectors (pensions, public health, education, labour markets). Privatisation stays high on the Opposition agenda and the industry’s agenda, too (see Doukas, P.: *The area of Euro and Greece*, Sideris: Athens 1999. See also A. Kanelopoulos’s Address at the annual conference of the SEB, in SEB Bulletin, No 584, June-July 1999).

3.1.2 Privatisation

The search for ideological compromise cannot conceal the drastic reorientation of public policy in Greece away from traditional socialist and, indeed, conservative concepts favouring state intervention and state enterprises towards a more liberal stance. In recognition of the large drag on the economy, as well as the burden on the budget, the Government has embarked on a programme to privatise and \ or revitalise public enterprises. Research supports the new trend. Prominent among several contributions is the work made in the framework of the OECD in close cooperation with the Ministry of National Economy.

A recent publication (Mylonas1\Isabelle Joumard: *Greek public enterprises: Challenges for reform*, OECD economics department working paper No 214, Paris May 1999) summarises the results of the OECD research as follows:

In outlining public sector performance in the past the authors of the report assert that "for at least two decades, almost all public enterprises have been poorly managed and have often been used as vehicles for implementing broader policy objectives unrelated to their primary objective of providing goods and services. As a result, their operations are often inefficient, the quality of service generally unsatisfactory with repercussions on other sectors, and they are an extensive drain on the public purse. This negative assessment is generally acknowledged, including by the Government and social partners"(ibid).

Reform of public enterprises has gained prominence as a policy priority from 1996. An impetus to reform is the desire to meet the Maastricht Treaty criteria, and this objective would be facilitated by a significant reduction of the financial burden the public enterprises impose on the budget. Looking further ahead, EU membership necessitates an opening to competition and a levelling of the playing field in most of the markets in which public enterprises currently operate as monopolies. The survival of public enterprises, therefore, hinges on deep restructuring.

The Greek public enterprise sector comprises nearly 50 large enterprises and employs about 130 000 individuals, equivalent to about 3 ½ per cent of total employment but, due to the large number of self-employed in Greece, 6 per cent wage-earners. This sector is dominated by about 10 firms, which include the largest enterprises in Greece and those that are usually monopolists (in a few cases oligopolists) in sectors which provide critical inputs to the economy, such as communications (telephony and mail), energy (electricity, lignite mining, petroleum, and natural gas), and transportation (air, rail, and urban transport). The poor financial performance by public enterprises has required financial assistance from the central government, equivalent to nearly half of Greece's large debt burden (with the latter amounting to nearly 110 per cent of GDP at end-1997).

Mylonas and Joumard estimated that a public enterprise reform could result in a cumulative increase in total output (direct and secondary) of the order of 5-7 per cent of GDP (ibid).

3.1.3 Tax Harmonisation

Tax harmonisation falls into the chapter of spill over from one policy sector to another at the European level. The Commission has long ago set up an Agenda comprising removing distortions in indirect taxes, ending preferential tax treatment of foreign companies and stamping out tax evasion.

The tax treatment of savings in the form of a compulsory EU-wide withholding tax seems to be the most contentious proposal. Member states have failed to agree up to now. Greece has supported Britain's and Luxembourg's blocking the withholding tax. However, the government makes recently second thoughts, taking into account that present arrangements mean that each country plays the role of a tax haven to residents of others.

Academic thinking favours savings tax, too. According to *Professors K. Stefanou and I. Nikolakopoulou-Stefanou*,

> "because of the competition between the different national tax systems, in those countries that the taxation on savings is very high, the relative earnings are very low since the capital is attracted

by markets with the lower taxation. As a result from this competition, these countries are forced to decrease their taxes. The efforts to harmonise the taxation systems have only been partially effective. Consequently, governments are under the obligation to transfer the taxation burdens from capital to labour or to shrink social expenditures, thus requiring sacrifices from the employees“(see Stephanou, K.\Nikolakopoulou I: „European Integration and the Social State” in *Greek Bank Union: Bulletin*, no 17\ 1999, p. 105).

Greece has recently introduced taxation on savings and seems now rather prepared to accept tax harmonisation in the EU. If not EU-wide harmonised, savings taxation may distort investment decisions and financial transactions.

3.1.4 Community Social Policy: The view of the Trade Unions

On the domestic front there is also increasing understanding of the need for pensions reform; but the system is so riddled with distortions that its reform is as difficult as it is necessary. The commissioning of an in-depth actuarial study at the highest level of international expertise has been initiated, following the effort being made to consolidate the hundreds of pension funds presently in the state system. A combination of patience and firmness should yield results, as it has done in other areas of the economy. But a quick transformation should be neither expected nor demanded. John Spraos, 20 Oct. 1999

Greece, like other EU Member States, will face increased pension liabilities in the second decade of the next century as a large number of people retire because of a marked ageing of the population. As a result, public pension spending is likely to increase sharply in relation to GDP, particularly if there is no reform of the social security system. Therefore, a “ speedy” reduction in public debt is essential. (so thinks Garganas).

The government could also press ahead as fast as possible with the reform of the social security system (for example, along the lines implied by the Spraos Committee Report of 1997).

3.1.5 Labour Market Policy

Greek trade Unions have in the past repeatedly denounced what they perceive as a bias of the EMU against labour. In a recent article the *president of the General Confederation of Greek Trade Unions(G.S.E.E.) Mr Polizogopoulos,* argues that

> “the single currency is connected with low wages for a considerable number of employees, stagnating or reduced welfare expenditures and downgrading of existing welfare systems……income inequalities have been expanded as well as the differences in living conditions and safety standards in workplace conditions during work” (*Ekfrasi*, Athens, May 1999, p.27)

Concerning unemployment, Mr Polizogopoulos demands both a new policy mix comprising an expansive macroeconomic policy stance and specific measures, for example reductions of weekly working time, to expand employment under EMU. Last but not least European policy should in his words cease to “discriminate” against social protection, and instead, help to stabilise the European social model (ibid.)

The Unions rightly see that EMU demands increased labour market flexibility and wage constraint. They warn however that

> “adjustment through wage flexibility cannot go on for long, since this would mean a continuous redistribution of income unfavourable to employees” (Institute of Labour (INE): The Greek economy and employment, annual report, Athens 1999, p.48).

The conclusion is that in the long run,

> “the position of the Greek economy can be improved only by enhancing labour productivity. Unequal rates of labour productivity between the member states could, in the long run, lead to concentration of production in some regions leaving behind others. This reallocation of production activities would either increase unemployment in some of the regions, or generate emigration to the regions that have attracted investments and production (ibid.)”.

Several contributions on the Unions side take up and expand on more theoretical terms the same arguments. For example E. Ioakimoglou, a prominent analyst of the Confederation *(Wages, Competitiveness and Unemployment*, GSEE, Institute of Labour, Athens, May 1999) claims critically that, after Maastricht, economic policy priorities have shifted from full employment to price stability, debt to GNP ratio and fiscal discipline. Employment is no more a goal of the economic policy but a task for the relatively autonomous ‘employment policies’, which derive from the so-called ‘Labour economics’ The latter see a strong link between real wages and unemployment rates and are convinced that unemployment is a result of low profitability which in turn is almost exclusively attributed to high labour cost. Ioakimoglou denies that there is empirical evidence for such arguments. The link between labour cost and competitiveness is complex one. Countries with a high unit labour cost show high levels of competitiveness while others with low wages have not improved their7 performance. In Greece, unit labour cost has been reduced by 20% in real terms between 1983-98 while at the same time the country's competitiveness deteriorated (ibid.). Putting it in a different way, Ioakimoglou asserts that labour costs in Greece are comparatively low, reduction of labour costs in real terms was not been followed by an increase of competitiveness and \ or employment, increased profitability based upon labour cost suppression has not led to an increase in investment nor to an increase in employment.

These are hard facts that have to be seriously considered in forming Greek (and other) economic policy orientations.
Another view sees that employment prospects in Greece, after the country's participation in the Euro area, mainly depend on the content of European economic policy. It also depends on the contribution of the Community's budget in the development of solidarity between member states.

In a similar way, Castoridas complains that labour market flexibility has developed to be an overriding economic policy. From his view, this represents a rather reductionist handling of the theory of Optimum Currency Areas leading to steadily intensified structural reforms in the labour market and social policy, which exert pressure on wages to keep them in line with inflation rate levels, reduce social security, promote different remuneration regimes in the framework of local employment pacts etc. All these measures aim at reducing labour costs through the squeezing of social rights and are additionally assisted by the state's ideological mechanisms and immigration. (D. Kastoridas: "Is the European Union an optimum currency area?" In *Enimerosi-Bulletin of the Institute of Labour*, Athens April 1999).

Despite severe criticisms, however, the Unions invest some hopes in the evolving employment strategy of the EU embodied in the National Action Plan for Employment. (GSEE: "National Action Plan for Employment, The Union´s proposals", in *Enimerossi-Bulletin of the Institute of Labour*, April 1999). They assess these Plans are able to create new employment opportunities, discipline employment policy through evaluation procedures and interest-group participation in its shaping and give rise to an active labour market policy (e.g. educational measures to improve access to the labour market).

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ITALIAN REPORT

Marina Mancini[*]
Elena Rigacci Hay[*]
Natalino Ronzitti[**]

1. Political Aspects

by Elena Rigacci Hay

1.1 Italian Public Opinion and the Euro

The transition from the Lira to the single European currency (the Euro) will not only depend on the technical steps needed to introduce the latter (actual substitution of one currency for another, coherent management of economic policies), but also on Italian citizens' understanding and acceptance of this new reality which will deeply affect their old behaviour patterns. Italians' perceptions of the effects of the introduction of the Euro must be analysed and taken into account for their influence on Italian government policies in related areas.

1.1.1 Support for the single currency

Through the years, the Italians have proven to be the most supportive and enthusiastic people in Europe with regard to the European Monetary Union (EMU) and the introduction of the Euro.

A public opinion poll carried out in five European countries, including Italy, by the French Agency "Promodes" in April 1999[3] shows that Italians are still very supportive of the single European currency. 72% of the Italians interviewed felt

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[*] *Istituto Affari Internazionali (IAI) - Rome.*

[**] *LUISS University, special counsellor at the Istituto Affari Internazionali (IAI) - Rome.*

[3] Ansa, 3 March 1999.

that the Euro "will have a positive and decisive impact on their everyday life", while only 62% of the Belgians and 60% of the French expressed the same opinion. An opinion poll done last year by "Ipsos-Afp"[4] showed a similar outcome.

A 1999 public opinion poll carried out by Doxa shows an increase in Italian consent for the introduction of the Euro: 85.7% of the people interviewed expressed a positive attitude towards it; only 7% were against its introduction[5].

The "Eurobarometer" opinion poll of September 1999 also shows that Italy was the most enthusiastic country in Europe, with 83% of the people interviewed expressing a positive attitude towards the Euro[6].

1.1.2 Level of information

The April 1999 "Promodes" opinion poll points out that Italians do not consider themselves to be well informed about the practical consequences of the Euro. They express concern for possible practical difficulties related to the conversion of Liras into Euros[7].

The same view is expressed in a Doxa[8] opinion poll done in June 1999 on behalf of the Italian Euro Committee. The results indicate that Italians have little basic information about the Euro. It is encouraging to notice, however, that 93.3% of the people interviewed are familiar with the name "Euro" and that only 1.5% of them still confuse it with the ECU (5% do not even recall the name of Euro). Notwithstanding these positive news, there is still considerable ignorance about the Euro's relative value and the countries involved in the 3rd stage of EMU.

Only 13.9% of the people interviewed know the exact value of the Euro in relation to the Lira (1 euro=1936,27 Liras); only 15.1% of those interviewed feel that its value

[4] Ansa, 3 March 1999.

[5] Ansa, 31 August 1999.

[6] Ansa, 17 September 1999.

[7] Ansa, 5 May 1999.

[8] Ansa, 30 June 1999.

corresponds to 1936 liras, 44.5% were completely wrong and 26.2% couldn't answer at all. To the question "what countries other than Italy belong to the Euro-zone?" only 23.2% answered correctly, 70.1% gave a wrong answer, and 6.7% did not answer. It is interesting to notice that, as a Doxa opinion poll indicated, radio and television are the principal vehicles for information on the Euro. The quantity of information broadcast on the European Union and the introduction of the Euro has been enormous but, especially on the second topic, often too technical and specialised. Although this kind of information has affected people's perceptions of the Euro positively, more targeted information may be necessary. The Italian government is aware of this problem and has declared its willingness to invest in the area of public information.

1.1.3 Price stability and currency operations

Notwithstanding their positive attitude towards the introduction of the Euro, Italians have a wide range of concerns regarding it. Most are related to possible price instability, loss of money in exchange operations and adjustment of their savings (56%). Only 11% of the persons interviewed expressed their readiness to use the single currency in current operations or to carry out their financial operations in Euro[9]. The outcome of this opinion poll may be related to the absence of targeted information, especially towards disadvantaged categories (the elderly).

1.1.4 Effects of the Stability Pact on Economic Growth and the Labour Market

All public opinion polls show enthusiastic Italian support for the Euro. Italians perceive its introduction as bringing clear advantages in terms of national currency stability in relation to the dollar. This fact is also relevant for enterprises with commercial relations with foreign countries in that it will improve their long-term planning. General perceptions related to the problem of unemployment and economic growth are positive, despite the idea that the Euro will not have any direct or immediate positive effect. In fact, Italian institutions need time to adjust

[9] Ansa, 26 October 1998.

and reform the Italian social and economic system. Structural reforms are especially needed since decisions related to monetary policies have been delegated from National Central Banks (NCBs) to the European Central Bank, thereby hampering the use of short-term national monetary policies to tackle unemployment and economic stagnation. (These aspects are dealt with in the following chapter).

In conclusion, the Italians' support of the single European currency is strong, even though they, curiously, know little about it. They generally accept the idea that EMU will not automatically trigger better economic and social conditions, but that it can be used as an engine to guide the implementation of structural reforms.

1.2 Italian Institutions and the Euro

1.2.1 The current debate and proposals of reform

Italy has been able to meet European targets for fiscal consolidation, while beginning the introduction of wide-ranging reforms aimed at modernising the public sector and the tax system. However, in the last year a number of factors - increased competition from outside Europe, weakening demand in major EU markets, the direct and indirect effects of the Russian crisis and the Kosovo conflict - have combined to weaken confidence and counteract the beneficial effects of EMU membership (lower inflation and interest rates), slowing down economic growth. In fact, as agreed to by all European countries in the Maastricht Treaty, certain convergence parameters had to be reached in order to be admitted into the third phase of EMU; one of these was that public debt had to be no more than 3% of Gross Domestic Product (GDP). EU countries would then need to continue reducing their parameters in order to achieve financial consolidation. Italy indicated to the European Commission that it would have brought its deficit down to 2% of GDP in 1999 and to 1.5% in 2000 (it was 2.7% in 1998). But in spring 1999, with the Italian economy slowing down, the Italian government feared that it would not be able to comply with the forecast and announced a new forecast to the Commission: 2.4% for 1999.

There have been polemics following the Italian government's statement – mostly from the opposition parties. In reality, the process of convergence had slowed down, but was continuing successfully nevertheless: there had, in fact, been a decrease from the 1998 value of 2.7%, and the process of convergence foreseen by the Stability Pact had been respected. At that point, the Italian government briefly took into consideration fiscal manoeuvring, but this option was immediately rejected since it was felt that it would worsen the European economic situation (increasing taxes and decreasing spending). In September 1999, the government indicated that it was increasingly confident to be able to meet its original deficit target for the year 1999 of 2% of GDP[10]. At a seminar held in Cernobbio on the Italian economy,[11] many considerations were made in relation to the "Growth and Stability Pact" and its implications for Italy. Cesare Romiti, President of the publishing house Rizzoli Corriere della Sera and Honorary President of FIAT, maintained that the "EMU Growth and Stability Pact" must be renegotiated and asked for a derogation for Italy. Fausto Bertinotti, leader of the Partito della Rifondazione Comunista (PRC), Franco Modigliani, Nobel Prize for economics and the Europarlamentarian, Giorgio La Malfa backed his view.

Giovanni Agnelli, Honorary President of Fiat, Piero Fassino, Italian Minister of Commerce, Mario Monti, European Commissioner for Competition Policy and Beniamino Andreatta, former Defence Minister, did not agree with the above view. Agnelli said that Italy has lost its price competitiveness with respect to European partners (a decrease of 9% since 1994) and that this has had very bad consequences for employment. He went on to say that the main cause is Italy's economic fragility and political instability. He also feels that there is a need for modernisation in the field of education and research; privatisation, building of

[10] Financial Times, 2 September 1999.

[11] Corriere della Sera, 6 September 1999.

infrastructures and diffusion of computer technologies, not to speak of the reform of the pension system and salaries[12].

In conclusion, the proposal to make a special derogation for Italy cannot be taken seriously into consideration: first of all because, as demonstrated earlier, there is no need for it; second, because, from a legal point of view, the Pact can be modified only if all member states agree. Such a proposal would only confirm the other EMU countries' fears that public expenditures in Italy will increase and that Italy will be unable to comply with the targets of the Pact. The Italian economic community and institutions are strongly in favour of reforming the Italian political and economic system, also in order to be able to comply with the Maastricht targets.

1.2.2 ECB Policy Measures

Concerning policy measures of the European Central Bank, the Bank of Italy has not expressed negative criticism of the ECB's monetary policies and feels that ECB policies have been coherent with its main task, maintaining price stability. On the other hand, economist Paolo Savona[13] expressed concern about the weakness of the Euro and its (at that time) 12 point fall with respect to the dollar. He was also surprised that the business community and national banks were not criticising the ECB. Savona felt that economic conditions in Europe were a cause of the weakness of the Euro, but he also attributed some responsibility to the monetary stances taken by the ECB in December 1998 and April 1999. These policies brought down interest rates, causing stagnation in employment and income, and a movement of capital towards the United States, with a consequential decrease in investment opportunities.

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[12] Corriere della Sera, 6 September 1999.

[13] Savona, Paolo "ECB's responsibilities " in Corriere della Sera, 17 July 1999.

Franco Modigliani and Giorgio La Malfa expressed the same opinion.[14] They felt that high levels of unemployment have been worsened by the restrictive monetary policy of the ECB, which caused devaluation and a consequent slowdown in economic activity. The policy decisions taken in December 1998 and April 1999 had negative effects on investments, aggregate demand and the employment rate.
On 4th of November 1999 the ECB increased by half a point the interest rate. The Italian government was supportive of the ECB measure and did not express concern for Italian economic growth rate. Also the Italian Treasury Minister, Giuliano Amato, expressed his support for the ECB. However, he recognised the possibility of negative consequences for Italy, especially given the country's high deficit[15]. The President of Confindustria, Giorgio Fossa, expressed his concern, retaining the monetary policy of ECB a new complicating factor "for a country that has already a slow growth rate and an high deficit" [16].
It should be taken into account that ECB monetary policy, given the different economic conditions and the still unclear modalities of transmission of their effects in terms of timing and effectiveness to the different European countries[17], cannot be positive for all countries. ECB monetary policy decisions are related to two pillars: the first is a reference value of 4.5% of annual money-supply (MS) growth; the second involves a range of indicators such as wages, price indices and business confidence. The importance of harmonisation of economic and financial situations is obvious from what has been stated above. Economists continue to retain, therefore, the importance of structural reforms of the Italian economic system in order to fully benefit from positive effects of ECB monetary policies.

1.3 Institutional problems posed by the EMU

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[14] Modigliani, Franco and La Malfa, Giorgio "ECB paralyzed by its own power", in Corriere della Sera - Corriere Economia, 21 June 1999.

[15] Il Sole 24 Ore, 5 November 1999.

[16] Il Sole 24 Ore, 5 November 1999.

[17] The Economist, 26 June 1999, p.95.

1.3.1 Independence and accountability of the ECB

The issue of independence of the ECB is strictly related to the issue of accountability of the ECB to the European Parliament and to national governments. The Treaty clearly states that neither the ECB nor National Central Banks can accept or press for instructions from Community institutions or organs, governments or member states.

In their book on EMU[18], Francesco Papadia and Carlo Santini support the independence of the ECB from national governments in the implementation of monetary policy. The ECB would be more successful in maintaining a stable purchase parity power in goods and services, in creating positive effects for the economy and in keeping down inflation. Stability of exchange rates, they say, will be possible only when prices and interest rates are the same for all countries in Europe. It is implied that there is a direct relationship between the independence of the ECB and economic growth.

One of the threats for the ECB envisaged by some is that it will become too technical and be characterised by an absence of democratic accountability and an aseptic nature. These fears cannot be fully shared, since NCBs and the ECB are not wholly unrelated entities; in fact, NCBs contribute fully to decisions related to monetary policy since they became part of the ESCB. Common monetary policy is not driven by national governments, but the ECB takes their recommendations into serious account.

State Councellor Giuseppe Pasqua[19] underlines that the ECB fulfils its responsibility requirements towards the European Parliament in various ways. The main tools are auditions of the ECB Governor before the European Parliament, as well as the annual report about the Bank's activities before the Parliament and the

[18] Papadia, Francesco and Santini, Carlo " European Central Bank", 1998, Il Mulino.

[19] Interview with Giuseppe Pasqua, 28 September 1999.

European Council. Andrea Manzella[20], member of the Italian Senate, feels that mechanisms of ECB accountability before national parliaments are no longer possible after the delegation of monetary policy to the ECB, as it is controlled by the Council and the Euro Parliament.

1.3.2 The co-ordination between National Central Banks and the ECB

The relationships between the European Central Bank and the national banks cannot be based on the subsidiarity principle. This means that, since monetary policy has been delegated to the ECB, only residual powers are left in the hands of national banks. However, the ECB is linked to national banks; Italian Central Bank Governor Antonio Fazio participates in ECB Council meetings where he has the broader task of sustaining European interests. Furthermore numerous committees have been brought into existence for each of the technical branches of the ECB in which representatives of NCBs formulate their opinions (the so-called "eurosystem").

Natalino Ronzitti feels that, since the ECB has been given exclusive competence in the area of monetary policy, this has irrevocably taken away the powers of National Central Banks to decide on their state's monetary policies. The principle of subsidiarity can be applied only within the realm of shared competence between the ECB and NCBs. This could be the case for prudential supervision. Giuseppe Pasqua, State Councillor and member of the Italian Euro Committee[21] is also of this view. He feels that co-ordination between the Italian Central Bank and the ECB is guaranteed through the participation of the governors of national banks in the ECB Council.

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[20] Interview with Andrea Manzella, 30 September 1999.

[21] The Euro Committee was established with a Minister of Finance's Decree on 12th September 1996 with the task to coordinate all necessary public interventions for the introduction of the Euro in the Italian economic system and in the Italian legal system. See part 2, par. 2.1.

From a legal point of view, it is clear from the treaties that in addition to prudential supervision on the credit institutions, the Bank of Italy will continue to do research and analysis on the economic and legal system, to elaborate and collect data and statistical information and to run the state treasury.

2. Legal Framework
by Marina Mancini

2.1. The Law as It Stands

2.1.1 Introduction

Italy took its first steps towards the European Monetary Union immediately after the signature of the Maastricht Treaty. Legislative Decree no. 385 of 1 September 1993[22] and Law no. 483 of 26 November 1993[23] contained some provisions aimed at making the Bank of Italy consistent with the model of an independent national central bank, as outlined by the EC Treaty[24], and at implementing Article 101 (ex Article 104) and Article 102 (ex Article 104A) of that Treaty[25].

The above mentioned legislative acts tackled the problem of giving the Bank of Italy the power to decide on the guidelines of monetary policy without interference from the Government[26]. In particular, Law no. 483 of 26 November

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[22] Published in Official Gazette no. 230 of 30 September 1993.

[23] Published in Official Gazette no. 282 of 1 December 1993.

[24] The text refers to the EC Treaty as modified by the Maastricht Treaty.

[25] Article 101 prohibits national central banks from granting state and local administrations credit facilities, while Article 102 forbids every measure directed at allowing the central and local administrations privileged access to financial institutions.

[26] The autonomy of the Italian Central Bank in the choice of monetary policy had already been increased by Law no. 82 of 7 February 1992 (published in Official Gazette no.

1993 prohibited the Italian Central Bank from granting the Ministry of the Treasury any advances and referred to it all decisions concerning the use of the compulsory reserve instrument.

Italy started to intensify its efforts to pass to the third stage of Monetary Union in 1996. The Decree of the Prime Minister of 27 June 1996[27] entrusted the Ministry of the Treasury with the task of co-ordinating all the activities concerning the introduction of the euro in the Italian economic and legal system and, to this end, provided for the establishment of an *ad hoc* committee, the so-called Euro Committee, as a special body of the Ministry of the Treasury. The Euro Committee was subsequently established by the Decree of the Minister of the Treasury of 12 September 1996.

The Euro Committee is divided into three sub-committees, in charge with the task of suggesting measures concerning the introduction of the single currency in the sectors of financial institutions, public administration and companies, respectively [28].

In view of the need to involve all the branches of the public administration, at both central and local levels, in the process of preparing for the introduction of the single currency, the Decree of the Prime Minister of 3 June 1997[29] obliged all public administrations to elaborate plans for adjustment to the euro and to submit them to the Euro Committee within three months from its publication.

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37 of 14 February 1992). This law gave the Governor of the Italian Central Bank the power to decide on the changes in the discount rate and the changes in the interest on the advances.

[27] Published in Official Gazette no. 176 of 29 July 1996. For a comment on this decree, see RONFINI F., *Gli effetti giuridici dell'euro*, Padova, Cedam, 1998, pp. 41 et seq.

[28] In 1997 the Euro Commitee published a booklet containing guidelines for the introduction of the euro in Italy (Comitato Euro, *Dalla lira all'euro*, Roma, Ministero del Tesoro, del bilancio e della programmazione economica, 1997).

[29] Published in Official Gazette no. 155 of 5 July 1997. For a comment on this decree, see RONFINI F., *supra* note 27, pp. 42 et seq..

The plans should indicate the changes in regulations, organization, electronic devices and personnel training requested by the adoption of the euro.

Moreover, the Decree of the Prime Minister of 3 June 1997 provided for the establishment of Provincial Committees for the Euro, the so-called Provincial Euro Committees, as local branches of the Euro Committee, charged with the task of disseminating information on the process of preparing for the single currency, verifying fulfillment of the obligations concerning adjustment by local administrations and dealing with the problems they might meet. The Provincial Euro Committees were subsequently established by the Decree of the Minister of the Treasury of 6 August 1997[30].

2.1.2 Law no. 433 of 17 December 1997

The first legislative act specifically concerning the transition from the Italian currency to the euro is Law no. 433 of 17 December 1997[31]. With this law, Parliament delegated the Government to issue the legislative decrees needed to give full effect to the EC provisions on transition to the third stage of the Monetary Union and to ensure the compatibility of national law, on the one hand, with the EC Treaty and ESCB Statute, on the other hand (Article 1 par. 1). The delegation was thought to be necessary because of the specificity of the subject and the difficulty in coordination.

When enacting legislative decrees, the Government should follow the general principles and criteria set down by the Parliament in the delegating act: continuity of legal instruments and legal relations; neutrality of the transition to

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[30] Published in Official Gazette no. 207 of 5 September 1997.

[31] Published in Official Gazette no. 295 of 19 December 1997. For a comment on this law, see RONFINI F., *op. cit.*, p. 43 et seq. References to the Italian legislation concerning the introduction of the euro can be found also in BOTTER R. J. / VAN KUIJK K. C. / VAN OLFFEN M. / VERDAM A. F., *Introduction of the Euro in the Various Member States. An Inventory of the National Rules*, in Rivista di diritto internazionale privato e processuale, 1999, no. 2, pp. 255 et seq..

the single currency; full information on transition rules; gradual transition to the single currency (Article 2).

With respect to particular issues, the Government should conform to specific principles and criteria. For instance, the index-linking parameters, which ceased to exist following the introduction of the euro and could not be automatically replaced, should be fixed again, thereby ensuring continuity and economic-financial equivalence between the old and the new ones (Article 4).

Law no. 433 of 17 December 1997 also provided that the Government could issue new legislative decrees modifying the ones previously passed within two years from its entry into force, always in conformity with the principles and criteria indicated in it (Article 1 par. 4).

Finally, Law no. 433 of 17 December 1997 re-named the Euro Committee "Committee for Directing and Coordinating the Implementation of the Euro" and specified that it shall continue to operate for no longer than six months after the Italian lira ceases to have the status of legal tender (Article 14 par. 1).

2.1.3 Legislative Decree no. 43 of 10 March 1998

Legislative Decree no. 43 of 10 March 1998[32] was the first act enacted by the Government in execution of the delegating act by the Parliament (Law no. 433 of 17 December 1997). First of all, this decree stated that the Bank of Italy is an integral part of the European System of Central Banks and that it acts in conformity with the instructions of the European Central Bank (Article 2 par. 1). It also established that the Bank of Italy is obliged to manage the official foreign exchange reserves in accordance with the provisions of the ESCB Statute and the ECB Statute (Article 7 par. 2)[33].

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[32] Published in Official Gazette no. 61 of 14 March 1998.

[33] Legislative Decree no. 43 of 10 March 1998 left it up to a subsequent decree of the Minister of the Treasury to fix the date of entry into force of Article 2 and Article 7 par. 2 (Article 11 par. 1).

Moreover, Legislative Decree no. 43 of 10 March 1998 regulated the transfer of certain powers from the Bank of Italy to the European Central Bank. It stated that the interest rate on interest-bearing current account deposits at the Bank of Italy should be fixed by the Governor of the Bank until the date of adoption of the single currency by Italy. After that date, the power to fix that interest rate must be exercised in conformity with the provisions of the EC Treaty and the ESCB Statute (Article 3 par. 1).

Similarly, the changes in the discount rate and the interest on advances should be decided by the Governor of the Bank of Italy until the date of introduction of the euro in Italy. Thereafter, the power of decision must be exercised in accordance with the provisions of the ESCB Statute (Article 6 par. 1).

Likewise, the foreign exchange reserve assets should be transferred from the Bank of Italy to the European Central Bank in conformity with the provisions of the ESCB and ECB Statute (Article 7 par. 1)[34].

Furthermore, Legislative Decree no. 43 of 10 March 1998 regulated the issuing of money by the Bank of Italy after Italy's adoption of the single currency. The Italian Central Bank may issue banknotes through the authority received from the European Central Bank (Article 4 par. 1). Similarly, it may mint coins with the approval of the European Central Bank as for the volume of issue (Article 5 par. 1)[35].

Finally, Legislative Decree no. 43 of 10 March 1998 allowed the Bank of Italy to carry out central bank operations consistent with the legal framework of the ESCB, even departing from the provisions of Legislative Decree no. 385 of 1

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[34] Legislative Decree no. 43 of 10 March 1998 put off the entry into force of Article 6 and Article 7 par. 1 until the date of adoption of the single currency by Italy (Article 11 par. 2).

[35] Legislative Decree no. 43 of 10 March 1998 put off the entry into force of Article 4 and Article 5 par. 1 and 2 until the date of adoption of the euro by Italy (Article 11 par. 2).

September 1993 and the Bank Statute, during the six months preceding the introduction of the euro in Italy (Article 9 par. 2)[36].

It is worth noting that in the same month in which the Government enacted Legislative Decree no. 43, the European Monetary Institute (EMI) issued the convergence report required by Article 121 (ex Article 109 J) of the EC Treaty[37]. In this report, it made an assessment of the compatibility of national legislation, including the statute of the national central bank, in the Member States with the EC Treaty and the ESCB Statute. As regards Italy, EMI expressed a positive opinion on the state of adaptation of the Italian legislation, including the Statute of the Bank of Italy, to the EC Treaty and the ESCB Statute.

2.1.4 Legislative Decree no. 213 of 24 June 1998

Legislative Decree no. 213 of 24 June 1998[38] was enacted after Italy was admitted to the third stage of Monetary Union by the Council meeting at the level of the Heads of State and Government (3 May 1998).

First of all, it dealt with the index-linking parameters that would cease to exist following the introduction of the single currency. They should be replaced automatically by the new index-linking parameters adopted by the market as substitutes (Article 2 par. 2)[39]. As for the index-linking parameters that could not

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[36] However, it must be noted that Legislative Decree no. 43 of 10 March 1998 expressly provided that the Bank Statute should be amended in accordance with its provisions (Article 10 par. 1).

[37] European Monetary Institute, Convergence Report, March 1998.

[38] Published in Official Gazette no. 157 of 8 July 1998. For a comment on this law, see RONFINI F., *supra* note 27, pp. 44 et seq..

[39] Legislative decree no. 213 of 24 June 1998 left it up to a subsequent decree of the Minister of the Treasury to declare the replacement of the old index-linking parameters with the new ones. In conformity with this provision, the Decree of the Minister of the Treasury of 23 December 1998 (published in Official Gazette no. 302 of 29 December 1998) declared

be replaced automatically, they should be determined by an arbitrator or, if the value of the legal instrument concerned is over 500,000,000 lira, by a panel of three arbitrators (Article 2 par. 3).

Legislative Decree no. 213 of 24 June 1998 also stated that as of 1 January 1999, the date of introduction of the euro in Italy, for a maximum period of five years, the Bank of Italy must periodically fix a rate to replace the superseded official discount rate, for use in legal instruments that make reference to the official discount rate (Article 2 par. 1).

Legislative Decree no. 213 of 24 June 1998 also established how the amounts resulting after conversion of lira into euro must be rounded off, with special reference to intermediate calculations (Article 3 and Article 4 par. 1).

Furthermore, it established how the capital and par value of each quota or share must be modified as a consequence of the adoption of the single currency. In particular, it stated that the capital of limited companies (*società per azioni*) cannot be less than 100,000 euros, while the capital of limited liabilities companies (*società a responsabilità limitata*) cannot be less than 10,000 euros; and the capital contribution must be 1 euro or its multiples (Article 4 par. 2).

These provisions apply to the companies established after 1 January 1999 with the capital expressed in euros. The pre-existing companies and the companies established after 1 January 1999 with the capital expressed in lira continue to be subject to Article 2327 and Article 2474 of the Italian civil code, which fix the minimum capital of limited companies and limited liabilities companies as 200,000,000 lira and 20,000,000 lira respectively. Nevertheless, the pre-existing companies and the companies established after 1 January 1999 with capital expressed in lira, which respect Article 2327 and Article 2474 of the Italian civil

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the replacement of the Rome Interbank Offered Rate (Ribor) with the Euro Interbank Offered Rate (Euribor) as of 30 December 1998.

code, are automatically in conformity with the provisions of the above mentioned legislative decree, since 1 euro corresponds to 1936.270 lira[40].

Legislative Decree no. 213 of 24 June 1998 also dealt with the redenomination of debt instruments in euros. It ordered the redenomination in euros on 1 January 1999 of government securities denominated in lira issued under Italian law and negotiable on regulated markets (Article 5 par. 1). It allowed the Ministry of the Treasury to redenominate in euros its international debt instruments, denominated in the other currencies participating in the third stage of Monetary Union, if the issuing Member States have already redenominated in euros their public debt, previously denominated in their respective currency and issued under their national law (Article 6).

Furthermore, the above mentioned legislative decree ordered the redenomination in euros on 1 January 2002 of the public debt instruments not negotiable on the regulated markets (Article 9 par. 1); and allowed Regions to redenominate their debt instruments in euros during the transition period (Article 10 par. 1). Similarly, it allowed private companies to redenominate unilaterally their financial instruments in euros during the transition period (Article 11).

Finally, Legislative Decree no. 213 of 24 June 1998 stated that, as of 1 January 1999, references to the lira and the other currencies participating in the third stage of Monetary Union, contained in financial instruments that are not redenominated during the transition period, must be considered references to the euro and must be expressed as a conventional quantity corresponding to the original par value (Article 14).

Legislative Decree no. 213 of 24 June 1998 also regulated the use of the euro by companies and government departments. As for the use of the euro by companies, it enabled them to use the euro as unit of account as of 1 January 1999, while obliging them to do so as of 1 January 2000 (Article 16 par. 1). If

[40] It must be noted that 200,000,000 lira correspond to 103,291.37 euros; while 20,000,000 lira correspond to 10,329.13 euros. See RONFINI F., *supra* note 27, p. 172.

the euro is used as unit of account, compulsory public financial documents relating to the transition period can be drawn up and published in euros (Article 16 par. 2). As for banks, financial companies, insurance undertakings and companies issuing financial instruments negotiable on the Italian regulated markets, compulsory public financial documents regarding the transition period can be drawn up and published in euros, even if the euro is not used as the unit of account (Article 16 par. 3). It goes without saying that compulsory public financial documents after 1 January 2002 shall be drawn up and published in euros (Article 16 par. 2).

Legislative Decree no. 213 of 24 June 1998 enabled companies to publish their financial statements in euros as well as in lira during the transition period, in conformity with the principle "no compulsion, no prohibition". Obviously, as of 1 January 2002, the financial statements shall be published only in euros (Article 4 par. 4).

As to the use of the euro by government departments, Legislative Decree no. 213 of 24 June 1998 stated that tax returns may be submitted to government departments with the amounts shown in euros as from the tax period beginning on 1 January 1999 or closed during 1999 (Article 47 par. 2). Moreover, during the transition period, creditors may request payments from government departments in euros and debtors may make payments to government departments in euros, when cash is not involved, in conformity with the principle "no compulsion, no prohibition" (Article 48 par. 1). As far as individual pecuniary obligations are concerned, requests addressed to government departments to use the euro as the means of payments must refer to all payments subsequent to such a request and cannot be revoked (Article 48 par. 2).

Finally, Legislative Decree no. 213 of 24 June 1998 established that, as of 1 January 1999, all criminal and administrative sanctions expressed in lira in the regulations in force, must be considered expressed in euros as well; and, as of 1 January 2002, shall be converted into euros (Article 51 par. 1 and 2).

2.1.5. Legislative Decree no. 206 of 15 June 1999

As was explained above, Law no. 433 of 17 December 1997 allowed the Government to issue new legislative decrees, modifying the ones previously passed on its basis, within two years since its entry into force, in conformity with the principles and criteria set down in it (Article 1 par. 4)[41]. In accordance with this provision, the Government enacted Legislative Decree no. 206 of 15 June 1999[42], which modified Legislative Decree no. 213 of 24 June 1998 and added new provisions.

In particular, it prohibited the production, issue and distribution of metallic objects resembling coins, bearing the words "euro", "euro cent" or similar words, or reproducing the design which appears on the common or national sides of the euro coins; and punished violations of this prohibition with a pecuniary administrative sanction (Article 3).

2.2 National Law from the EC Perspective

2.2.1 Conflicts between Italian Law and EC Law

The main conflicts between Italian law and EC law with respect to the introduction of the euro, as pointed out by Italian scholars, are related to the principle of the continuity of contracts, established by Article 3 of Regulation no. 1103 of 17 June 1997, on the one hand, and certain well-established

[41] See *supra* par. 1.3.

[42] Published in Official Gazette no. 149 of 28 June 1999.

principles governing contracts enshrined in the Italian civil code, on the other hand[43].

Article 3 of Regulation no. 1103 of 17 June 1997 reads as follows: “The introduction of the euro shall not have the effect of altering any term of a legal instrument or discharging or excusing performance under any legal instrument, nor give a party the right unilaterally to alter or terminate such an instrument. This provision is subject to anything which parties may have agreed.”

The principle of the continuity of contracts underpins all the legislative acts passed to render the Italian legal system consistent with the single currency. It is no coincidence that the continuity of contracts is the first among the general principles and criteria that the Italian Government should follow when enacting legislative decrees concerning the introduction of the euro, according to the delegating act of the Parliament, contained in Law no. 433 of 17 December 1997 (Article 2)[44].

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[43] See SACERDOTI G., *Aspetti giuridici dell’introduzione dell’euro*, in Diritto comunitario e degli scambi internazionali, 1997, p. 341, pp. 347 et seq.; DRAETTA U., *L’euro e la continuità dei contratti in corso*, in Diritto del commercio internazionale, 1997, p.3, p. 9 et seq.; VISCO C. / SIMONETTI L., *L’euro e il problema della continuità dei contratti*, in Diritto del commercio internazionale, 1998, p. 107, pp. 112 et seq.; RONFINI F., *supra* note 27, pp. 97 et seq.; DE NOVA G., *Il principio di continuità dei contratti dopo l’introduzione dell’euro*, in I contratti, 1998, pp. 5 et seq.; INZITARI B., *La disciplina giuridica dell’introduzione dell’euro quale moneta unica europea*, in Banca, borsa e titoli di credito, 1998, p. 113, pp. 139 et seq.; BASSO R., *L’unione economica e monetaria e l’Euro: principi di base e misure di attuazione*, in TOSATO G. L., *L’Unione economica e monetaria e l’euro*, Torino, Giappichelli, 1998, p. 25, pp. 89 et seq.; MEZZETTI C. E., *Introduzione dell’euro e contratti in corso di adempimento*, in Diritto dell’Unione Europea, 1999, no. 1, p.75, pp. 86 et seq.; MALATESTA A., *Il principio di continuità dei contratti dopo l’euro al vaglio della disciplina sulle clausole abusive*, in Diritto del commercio internazionale, 1999, no. 1, p. 105, pp. 109 et seq.

[44] See *supra* par. 2.1.2.

Nevertheless, as was mentioned, Article 3 of Regulation no. 1103 of 17 June 1997 seems to be inconsistent with certain provisions of the Italian civil code[45], as well as with certain provisions of Law no. 218 of 31 May 1995.

a) The principle of the continuity of contracts and the principle of supervening excessive hardship (*eccessiva onerosità sopravvenuta*)

First of all, Article 3 of Regulation no. 1103 of 17 June 1997 appears to be in conflict with Article 1467 (Contract involving reciprocal performances – *Contratto con prestazioni corrispettive*) of the Italian civil code. According to this article, in contracts involving reciprocal performances, if the performance of one of the parties becomes too onerous because of extraordinary and unforeseeable events, the party that should carry out it can request the termination of the contract. The other party can prevent termination by proposing to modify the contract in order to re-establish the equivalence between the performances of the parties.

The principle of the continuity of contracts aims at avoiding to identify the introduction of the euro with an unforeseeable event. Nonetheless, the replacement of the national currency indicated in the contract with the single currency represents an unforeseeable event for the parties to the contracts concluded before the entry into force of the Maastricht Treaty, because the objective of the single European currency was established by that treaty.

The replacement of the national currency provided in the contract with the single currency also constitutes an unforeseeable event for contracts concluded after the entry into force of the EU Treaty. Until the decision of the EC Council of 3 May 1998, it was not certain if Italy would participate in the third stage of

[45] It must be noted that the above mentioned conflicts can be envisaged only when the contract is regulated by Italian law.

Monetary Union; and until the beginning of the third stage, the conversion rate of the currencies of the country participating in the euro could not be foreseen[46].

It must be pointed out that in some cases, replacement of the national currency indicated in the contract with the euro alters the equivalence of the performances of the parties to the contract. This happens in the case in which a fixed interest rate is established in the contract. Since the interest rate of the euro is quite a bit lower than that of the currency of certain States participating in the third stage of Monetary Union, such as the Italian currency, the replacement of that currency with the euro may improve the position of the creditor and worsen the position of the debtor.[47]

In that event, because of the unforeseeability of the introduction of the euro and the alteration of the equivalence of the performances of the parties, Article 1467 of the Italian civil code allows the debtor to request termination of the contract. But this possibility seems to be precluded by the prevalence of EC regulations over Italian legislation and the consequent application of Article 3 of Regulation no. 1103 of 17 June 1997.

b) The principle of continuity of contracts and the voidance of contracts

Article 3 of Regulation no. 1103 of 17 June 1997 also seems to be inconsistent with Articles 1418 (Causes of voidance of contract – *Cause di nullità del contratto*), 1325 (Contract requirements – *Requisiti del contratto*) and 1421 (Legitimation of voidance proocedings – *Legittimazione all’azione di nullità*) of the Italian civil code. According to Article 1418, the contract is void when it lacks one of the elements indicated in Article 1325, namely the agreement of the

[46] RONFINI F., *supra* note 27, p. 103 et seq.; INZITARI B., *supra* note 43, p. 143.

[47] DRAETTA U., *supra* note 43, p. 19; VISCO C. / SIMONETTI L., *supra* note 43, pp. 119 et seq.; RONFINI F., *supra* note 27, p. 103; DE NOVA G., *supra* note 43, p. 6; INZITARI B., *supra* note 43, pp. 143 et seq.; BASSO R., *supra* note 43, pp. 90 et seq.; MEZZETTI C. E., *supra* note 43, p. 87.

parties, the cause, the object or, if requested by law under pain of nullity, the form.

It is interesting to note that in some hypothesis, as a consequence of the replacement of the national currency indicated in the contract with the single currency, the contract lacks the cause. In particular, this happens in the case of currency swaps, in which the parties are obliged to give each other amounts of money, determined with respect to certain index-linking parameters, in two different currencies. If these are both currencies of countries participating to the third stage of Monetary Union, the introduction of the euro makes the contract lose its cause and, consequently, makes it void[48].

In that case, according to Article 1421 of the Italian civil code, the nullity of the contract can be declared by the judge *ex officio* or on request of a party. But this effect is clearly in conflict with the continuity of legal instruments prescribed by Article 3 of Regulation no. 1103 of 17 June 1997.

c) The principle of continuity of contracts and the interpretation of contracts

Article 3 of Regulation no. 1103 of 17 June 1997 appears to be in conflict with Article 1362 (Will of the parties – *Intenzione dei contraenti*) of the Italian civil code. According to this article, when interpreting the contract, it is necessary to determine the common will of the parties and not to consider just the literal meaning of the words. In order to do so, the overall behavior of the parties, even subsequent to the conclusion of the contract, must be examined.

On the basis of this provision, the will of the parties to terminate the contract can be inferred from a general clause providing the right to terminate the contract in

[48] SACERDOTI G., *supra* note 43, p. 349; DRAETTA U., *supra* note 43, p. 19; VISCO C. / SIMONETTI L., *supra* note 43, pp. 123 et seq.; RONFINI F., *supra* note 27, p. 103; DE NOVA G., *supra* note 43, p. 7.

case of unexpected events concerning the currency of the contract, coupled with significant behavior of the parties, or even only from such behavior.

In the case of the replacement of the national currency indicated in the contract with the single currency, however, this possibility seems to be precluded by the prevalence of EC regulations over Italian legislation and the consequent application of Article 3 of Regulation no. 1103 of 17 June 1997. This article seems to allow for termination of the contract only in the case in which the contract contains an explicit clause providing for termination as a consequence of the introduction of the euro[49].

2.2.2 Redundancies of Italian Law with respect to EC Law

The Italian legislative acts passed to render the Italian legal system consistent with the single currency do not contain any remarkable repetition of the EC Treaty and EC regulations concerning the introduction of the euro, namely Regulation no. 1103 of 17 June 1997, Regulation no. 1466 of 7 July 1997, Regulation no.1467 of 7 July 1997 and Regulation no. 974 of 3 May 1998.

The Italian legislator makes reference, where necessary, to the relevant provisions of the EC Treaty and EC regulations, without restating their content.

Actually, some definitions contained in Article 1 of Legislative Decree no. 213 of 24 June 1998, namely the definitions of "legal instruments", "conversion rate", "transition period" and "redenomination", are nearly identical to those contained in Article 1 of Regulation no. 974 of 3 May 1998, but they seem necessary for a better comprehension of the decree and the identity appears fully justified by the principle of certainty of law.

[49] Italian scholars express different opinions on this issue. See DRAETTA U., *supra* note 43, pp. 21 et seq.; VISCO C. / SIMONETTI L., *supra* note 43, pp. 117 et seq.; RONFINI F., *supra* note 27, pp. 113 et seq..

2.3 The Application of the Law

2.3.1 Cases that have come before Italian Courts to date

Till now, no case concerning the application of the EC regulations regarding the introduction of the euro or the application of the legislative acts passed to render the Italian legal system consistent with the single currency have come before the Italian Courts.

2.3.2 Cases likely to come before Italian Courts in the future

A number of cases concerning the application of the EC regulations regarding the transition to the third stage of the Monetary Union or the application of the legislative acts passed to render the Italian legal system consistent with the euro are expected to be examined by Italian judges in the near future.

The conflicts between Article 3 of Regulation no. 1103 of 17 June 1997 and the Italian provisions described above are likely to give origin to a vast case law. On the other hand, the Italian judges are likely to decide these cases in conformity with the well-established principle of the prevalence of directly applicable EC law over national law.

In the Decision 8 June 1984 no. 170 (Granital)[50], the Italian Constitutional Court restated the previous case law, confirming that the directly applicable EC law prevails over national law by virtue of Article 11 of the Italian Constitution. It added that such a prevalence does not involve the inconstitutionality of the Italian provisions in conflict with the EC ones and does not need to be ascertained case by case by the Court itself.

According to the Court, the national provisions remain in force; they simply are not applied to the cases regulated by EC provisions inconsistent with them. Because of the partial transfer of sovereignty from Italy to the European

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[50] Published in Foro italiano, 1984, I, pp. 2062 et seq..

Communities, the Italian legal order withdraws when the EC provisions inconsistent with them come into consideration. Thus, a real conflict between the directly applicable EC law and Italian law does not exist[51].

Italian judges should conform to this view when deciding cases concerning provisions of the civil code inconsistent with Article 3 of Regulation no. 1103 of 17 June 1997, with the consequence that they should apply the EC regulation and not the national provisions inconsistent with it.

[51] For a comment on this decision, see STROZZI G., *Diritto istituzionale dell'Unione europea*, Torino, Giappichelli, 1998, pp. 299 et seq.; GAJA G., *Introduzione al diritto comunitario,* Bari, Editori Laterza, 1999, pp. 123 et seq..

3. Trends Towards Spill Over

by Elena Rigacci Hay

3.1 Fiscal policy

Mario Monti, the current Euro-Commissioner for Competition Policy (formerly Commissioner for Fiscal Policy) feels that all European countries must harmonise their fiscal systems in order to "fight dangerous and unfair competition"[52] and to combat unemployment. He envisages fiscal harmonisation for direct and indirect taxes, while he maintains that decisions related to income tax may remain in the hands of national states. Monti's aim is to iron out possible distortions of the single market that could trigger "harmful" tax competition among member states[53]. He considers the states' reluctance to give up their national sovereignty over fiscal matters as the main obstacle to the implementation of his proposal.

Reform of the fiscal system is particularly necessary in Italy where fiscal pressure accounts for 52% of gross income, which, as Francesco Serao (President of the National Committee of Italian Professional Accountants) states[54], is the highest in Europe.

Italian President and former Treasury Minister Carlo Azeglio Ciampi[55] feels that the Italian government will continue to reduce fiscal pressure, respecting its commitment on fiscal co-ordination (a subject that has been discussed again without success in Helsinki in December[56]). However, he thinks that, because of the Italian public debt[57] (2.42 trillion liras)[58], the pace of implementation of fiscal

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[52] Ansa, 18 May 1999.

[53] Emma Tucker "UK block on a thorny tax problem" in Financial Times Survey, 10 September 1999.

[54] Ansa, 8 April 1999.

[55] Ansa, 7 January 1999.

[56] Ansa, 18 January 1999.

[57] Ansa, 11 February 1999.

reforms and the reduction of taxes will be slower[59] than in other European countries.

Andrea Monorchio, Italy's General Accountant, claims that the Stability Pact's commitment to reach an accounting budget equation by 2002 could slow down Italian fiscal reforms[60]. To conclude, notwithstanding these difficulties, Italy seems willing to implement a tax harmonisation with other European countries, even though an abrupt tax reduction cannot be envisaged.

3.2 Social Policy

Following Italy's success in joining the EMU in January 1999, Italian social policies have been strengthened, especially to tackle the most pressing problems of unemployment, pensions and education.

3.2.1 Employment

Carlo Azeglio Ciampi feels that unemployment is the most urgent problem which must be dealt with through structural reform of the labour market[61].

Tommaso Padoa Shioppa (member of the executive committee of the ECB) stated at the annual meeting on economy and development organised by Business International that in order to increase employment and strengthen occupation policy, reforms of the legal and fiscal system and the administration must be pursued. Massimo D'Alema, Italy's Prime Minister, maintains that there is no direct relationship between participation in EMU and reduction in the unemployment rate: economic growth and a rise in employment levels should be pursued through public intervention and major structural reforms[62]. Therefore it

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[58] Ansa, 1 February 1999.

[59] Ansa, 11 February 1999.

[60] EIU, Italy Country Forecast, 2nd quarter 1999.

[61] Ansa, 18 January 1999.

[62] Ansa, 19 February 1999.

will be the path of rigor and financial recovery dictated by Maastricht that will create stronger economies and contribute, even though not directly, to dealing with the problem of unemployment[63].

Economists of the Bank of Italy underline the need to face unemployment through the implementation of *ad hoc* policies aimed at increasing demand and avoiding that national enterprises move their production out of Italy. These include a lessening of bureaucratic constraints, infrastructural deficits and the excessive cost of labour[64]. Moreover, a firm policy directed toward sustaining investment and balancing resources is envisaged together with a decrease in fiscal pressure and the cost of pensions and an increase in allocations for investment in human capital[65]. The Governor of the Bank of Italy, Antonio Fazio, feels that economic improvement will be measured in employment growth and that it should be obtained by cutting down public expenditures, decreasing the taxation level and favouring salary flexibility[66]. Luciano D'Ulizia[67], President of the Unione Nazionale delle Cooperative Italiane, also thinks that the introduction of the Euro alone cannot solve the problem of unemployment, but that it can trigger structural reforms in order to comply with Maastricht targets. Furthermore some economists claim that, in order to avoid future "asymmetrical shocks", national labour policies should be co-ordinated among member countries and a common labour policy for Europe implemented to avoid an increase in internal social tension[68].

In conclusion, it is generally accepted that the introduction of the Euro is not expected to create positive effects on employment in the short term. Some even feel that it may produce a drop in investment and demand together with an

[63] Ansa, 8 February 1999.

[64] Ansa, 5 March 1999.

[65] Ansa, 5 March 1999.

[66] Ansa, 2 January 1999.

[67] Interview with Luciano D'Ulizia, 29 September 1999.

[68] Triulzi, Umberto, "Dal Mercato Comune alla Moneta Unica", Seam 1998 pag. 463.

increase in unemployment, as long as structural reforms are not carried out. Structural reforms are therefore considered to be the only way to create greater flexibility on the job market and in investments in infrastructures, productivity, technology, human capital and know-how.

3.2.2 Pensions

The ECB has also called for reform of the Italian Pension System and especially for a strengthening of the integrative pension fund system[69].

A Eurostat study revealed that Italy has deposited only 1,237 million Euro in integrative pensions, while Great Britain has deposited 19,400, Germany 15,639, the Netherlands 8, 499 and Spain 3, 567. Therefore, Italy is moving slower than the rest of Europe towards integrative pension funds but, as soon as reform of the pension system begins, the speed should increase[70].

Giuliano Amato, current Minister of the Treasury, feels that gradual reform of the Italian pension system should be carried on through a decrease in the level of taxation and a shift of some social security payments into integrative pension funds[71].

In Bari, during an assembly of the Unione Italiana del Lavoro (UIL), one of the three largest Italian trade unions, Amato renewed his proposal for creating a pension ceiling, making a solidarity contribution compulsory for the highest pensions and giving the integrative pension fund system a stronger role[72].

Minister of Labour Cesare Salvi confirmed that the decision about the pension system reform will be implemented by the government next spring, after the budget for the year 2000 is approved by Parliament. The budget does not include any major reform of the pension system, it only envisages a cut in "golden pensions" and privileges.

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[69] Ansa, 13 July 1999.

[70] Ansa, 17 June 1999.

[71] Ansa, 17 June 1999.

While the government has a positive attitude towards reforms, the Italian trade unions are divided on the issue. Sergio D'Antoni, Secretary of the Confederazione Italiana Sindacati Lavoratori (CISL) does not completely agree with this proposal and does not feel that reform of pensions is the most urgent matter for the government. Instead, Sergio Cofferati, Secretary of the Confederazione Generale Italiana del Lavoro (CGIL), envisages future problems created by the Italian pension system in 2005-2006: a "dispersion of pension expenses will soon show its effects: the active labour force will be increasingly unable to sustain the people who do not work anymore"[73]. Pietro Larizza, the Secretary of UIL, feels that an agreement between the government and the trade unions to bring about a full reform of the pension system is a conditio sine qua non for reforms to take place.

3.2.3 Education

At a Conference at Luiss University in Rome, the Governor of the Bank of Italy, Antonio Fazio[74] declared that, in order to compete with European partners, it is urgent that Italy improves its education system; he was referring both to school and to vocational training. He claimed that people with a University diploma represent only 30% of the labour force compared to the EU average of 60% and that the average Italian graduate finds a job only years after graduation.

During a conference organised by the Lombardy Region, Minister for Community Affairs Enrico Letta declared that reforms in the Italian education system should be carried out. In his opinion, new EU structural funds[75] must be used to make Italy more responsive to the real needs of the labour market as

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[72] Il Sole 24 Ore, 15 September 1999.

[73] Il Sole 24 Ore, 10 September 1999.

[74] Conference at Luiss University, 12 January 1999.

[75] Ansa, 16 April 1999.

well as to strengthen the knowledge of languages, computer skills and technical capacity.

3.3 Co-ordination of macroeconomic policy and monetary policy

Many feel that the common European monetary policy is deeply affecting the pace towards a common European macroeconomic policy. The mechanisms for economic convergence envisaged in the Maastricht Treaty and in the Stability Pact are important tools to create harmonisation of European economies. In fact, the economies of the European countries are still very different in structure and dynamism, and a unified monetary policy therefore requires a more co-ordinated and integrated economic policy among member countries in order to produce positive results.[76] Structural reforms of European economic systems are therefore being put in place in many countries. In addition, tools must be strengthened that allow for the sharing of information on the economic and budgetary policies of member states in order to formulate monetary and economic policies at the European level that are co-ordinated with national macroeconomic policies.

Franco Modigliani and Giorgio La Malfa[77] maintain that, in order to implement more effective monetary policies, the ECB's aims must go beyond upholding prices to taking decisions related to economic policies for labour, fiscal and budgetary matters.

[76] Tony Barber "Coherence of strategy uncertain", Financial Times Survey, 10 September 1999.

[77] Modigliani, Franco and La Malfa, Giorgio "ECB paralysed by its power", Corriere della Sera- Corriere Economia, 21 June 1999.

Cesare Romiti[78] feels that the single monetary policy creates the need for strict economic co-ordination among European countries: in his view, monetary policies and budget policies must be co-ordinated with macroeconomic policies. He feels that common macroeconomic policies will be possible only after the Italian economic system has been reformed. He calls for liberalisation in the services sector (energy, transport, telecommunications); less rigidity in regulation of the labour market and salary structure; lower fiscal pressure to finance the welfare system; a reduction in the heavy barriers in the national legal system. Furthermore, he feels that macroeconomic policies should be independent of national governments because of tighter linkages with the monetary policies of the ECB.

It is generally accepted that the Euro 11 is the place where a common economic policy will be created and implemented. Before that, national economic policy choices will be submitted to Community verification, evaluations and expressions of approval. Especially during economic crisis, co-ordination among the economic policies of the states is required. For example, fiscal policy, a particular aspect of macroeconomic policy, is still decided and approved by European states' Parliaments, but a European vision already seems to have matured: the French government has stated that budget deficits should be counted as an overall budget deficit of the EU.

3.4 External Projection of the Euro

Art. 111 (ex art. 109), of the Maastricht Treaty regulates international monetary relations, presenting two main cases. The article envisages possible international exchange agreements linking the Euro with principal currencies (dollar and yen)

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[78] Il Sole 24 Ore, 10 September 1999.

and, in case of no such agreement, sets out the possibility for the Council of Ministries to propose broad guidelines for the exchange rate policy.
Francesco Papadia and Carlo Santini[79] feel that European political authorities, in exercising their responsibilities for exchange rates and related matters, are obliged to follow the European Central Bank's directions. At the political level, the European political authority can take decisions related to exchange regimes, but the ECB maintains full autonomy to conduct exchange policies, a particular aspect of monetary policy. The ECB therefore has exclusive responsibility over monetary and exchange policy, its main objective being the maintenance of price stability. Therefore governments can suggest possible exchange policies, but the ECB will take suggestions into consideration only in so far as it can act in coherence with its main objective of price stability (inflation rate below 2%). Up to now, there has been a good degree of co-ordination between national governments and the ECB. The main foreign currencies fluctuate among themselves and do not produce any kind of constraints because the average inflation rate of the Euro countries is around 1%.
Some criticism, especially from the US Federal Reserve, has been related to the absence of a single central authority for exchange rate policies. Indeed, neither ECOFIN, nor the Commission are granted this power. It is envisaged that the Euro 11 may, in the future, become the central authority for exchange policy.
In the view of Lorenzo Bini Smaghi, responsible for the Analyses and Planning Division of the European Monetary Institution, a single European currency will have a positive impact on integration. First, the possibility of carrying out trade transactions in one's own currency will remove the risk of exchange rate fluctuation and will protect prices from inflation. Second, the Euro may become an international monetary reserve, like the dollar, and therefore, a means of payment and investment abroad. Third, the Euro may influence European markets and currency interest rates. Fourth, the Euro could become a powerful

[79] Papadia, Francesco and Santini, Carlo " European Central Bank", 1998, Il Mulino.

tool in influencing world economic and financial policies, gaining a new role in the international monetary system and thereby limiting the role of the dollar.
These hopes for the future of the Euro seemed momentarily dismissed from the rapid fall of the single European currency at the beginning of December, and especially when, on 3rd December, it reached value 0,9997 against the dollar. Notwithstanding this, the European Central Bank continues to express a positive stance for the future of the Euro, as well as the Italian financial institutions. Italian analysts have difficulties in explaining the reasons for the fall of the currency, since the European economy is recovering. They continue to underline the need to strengthen economic reforms in Italy, especially decreasing fiscal pressure and eliminating protectionist measures. Italian politicians did not express concern over the decrease of the value of Euro[80]. Piero Fassino, the Italian Minister for Commerce, even envisaged positive effects for Italian export outside Europe thanks to an increase of its competitiveness. Fassino retains that "the decrease of the value of the Euro should not be considered a factor of weakness, but the outcome of the normal trend of exchange rates".

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[80] Il Sole 24 Ore, 28 November 1999.