CHAPTER NINE

THE EU AND THE IMF: THE FINANCIAL CRISIS AS A CATALYST FOR A STRONGER UNION REPRESENTATION?

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1. INTRODUCTION

The International Monetary Fund (IMF) was created at Bretton Woods in July 1944, with the aim of promoting monetary cooperation, facilitate growth and trade, and maintain exchange rate stability.¹ Such exchange rate stability was considered fundamental for the smooth development of trade relations.² It was to be achieved within the IMF through an arrangement known as ‘Bretton Woods’, whereby each Member was committed to maintain the parities of their currency with the US dollar, while the dollar would maintain a fixed dollar/gold parity.³ The importance of exchange rate stability for harmonious trade relations was also recognized in the Treaty of Rome founding the European Economic Community, where Article 107 TEEC considered exchange rate policy of common interest. At that time there was no exchange rate arrangement within the Community, as all EEC members were also IMF members, and therefore exchange rate stability and monetary stability remained mainly outside the Community’s competence.⁴

After the collapse of the Bretton Woods system in 1971, the EEC decided to strengthen economic and monetary cooperation. Indeed, exchange rate stability and monetary stability were considered fundamental for

¹ See article I of the IMF Agreement.
² As shown by the reference to exchange rate values in the General Agreement on Tariffs and Trade, even though the interpretation and application of the relevant articles is subject to debate.
both the internal market and the common agricultural policy. After several attempts to maintain an exchange rates arrangement, in 1993, the Maastricht Treaty codified the three stages of Economic and Monetary Union. That led to the adoption of the common currency, the Euro, by some Member States. Even EU countries not adopting the Euro are bound to the broader institutional framework for economic cooperation within the EMU. Moreover, aside from the two formal opt-outs countries (United Kingdom and Denmark), there is a presumption that the other EU Member States will adopt the Euro at a later stage. The creation of the EMU, as well as the further development of financial regulation and the completion of the internal market, also modified the division of competences substantially with regard to financial, monetary and economic matters. As declared in the Vienna European Council Conclusions of December 1998, “the introduction of the euro will be a major event for the international monetary system”. The internal change in competence at the European level was mirrored by a change with regard to the external powers. Since then, the Union’s institutions join the Member States in international economic and financial organizations, albeit that this happens in a rather scattered and diversified way, depending on the precise subject matter (monetary policy, fiscal policy, financial services and macro-economic developments). Basically, the way they intervene depends on a complex horizontal and vertical division of competences in the external relations of the EMU. Therefore, even though monetary policy is an exclusive EU competence within the Euro area, and even though the IMF constitutes a monetary organization, the Member States have kept their individual seats there and the ECB has only been given an observer status, to be able to intervene on matters governed by EU law. The Council and the Commission also participate in some specific circumstances, as we will see and explain later. Voting power within the IMF remains exclusively in the hands of the Member States. Yet, if coherence is fundamental to create a

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