implementation of EMU. The Pact is an agreement among EU members that participants in monetary union shall maintain budgetary discipline after EMU is implemented on January 1, 1999.

2. The Framework for EMU

2.1 Background and Main Features of EMU

The Maastricht Treaty established a three-stage timetable which would lead to a European Monetary Union and a single currency.

Stage I of the EMU, which began on July 1, 1990 and concluded on December 31, 1993, mandated the elimination by Member States of all controls on capital movements.

Stage II, which began on January 1, 1994, binds the signatories (except for the UK and Denmark) to proceed with stage III if in the opinion of the EU Council they meet the convergence criteria.

Stage III will see the establishment of the single currency. The most likely date for this is January 1, 1999.

The Maastricht Treaty specifies a set of five economic convergence criteria with which member states are required to comply in order to join the final stage of EMU:

1. The general government deficit must be less than 3% of GDP, unless the ratio is declining and approaching the reference value.

2. The general government debt-to-GDP ratio must be less than 60%, unless the ratio is declining and approaching the reference value. Much speculation surrounds the degree of flexibility to be attached to this and the preceding criterion.

3. The inflation rate must be no more than 1.5 percentage point above the average of the three best-performing member states;

4. The long-term interest rate cannot be more than 200 basis points more than the average for the three member states with the best inflation performance;

5. Exchange rate stability must be demonstrated by each member state.