The Maastricht Treaty of 1991 (Council of the European Communities (1992)) amended the Treaty of Rome to incorporate new provisions for EMU and other questions such as majority voting at the European Council, the future role of the European Parliament and the development of a common European defence policy. The provisions for EMU were largely as in the Delors report, although these provisions represented a dominant position for those economists who believed that economic convergence should proceed before monetary union, and those that believe that monetary union would promote economic convergence, so should occur first (- mirroring the "economists" versus "monetarists" debate in the early 1970s, which emanated from the Werner report of 1971 and the "All Saints Day" manifesto of 1975). EMU was to occur by 1999 at the latest, but there would be economic convergence criteria that had to be satisfied before Member States could qualify to join. The five Maastricht convergence criteria were concerned with budget deficits, public debt, inflation, long-term interest and the ERM of the EMS. The United Kingdom negotiated a derogation (an opt-out) and after Denmark's population refused to ratify the Treaty in 1992, the Danes also obtained a derogation. For more details on the Maastricht convergence criteria see Buiter, Corsetti and Roubini (1993) and Crowley (1996a).

Unfortunately, the re-unification of Germany presented particularly difficult problems for the ERM of the EMS in coping (unmodified) with a sudden medium term divergence of interest and inflation rates between Germany and its EU partners. The divergence in interest rates between Member States eventually precipitated the ERM crisis of 1992/93, when the UK pound and the Italian lira left the mechanism (September 1992) and the fluctuation margins for the mechanism were widened to +/-15% (August 1993) from the standard +/-2.25% before the crisis (see Eichengreen and Wyplosz (1993)). The currency crisis removed one of the principal "stepping stones" that EMU was based upon, a stable and narrow-fluctuation-margin ERM. Nevertheless, EMU proceeded with assurances that the "normal" fluctuation bands which were written into the Maastricht Treaty convergence criteria would be (re)interpreted as +/-15% fluctuation margins.

The agreement on EMU incorporated in the Maastricht Treaty specified a three stage process for EMU, the first consisting of closer monetary cooperation between EU Member States, the second stage (beginning in 1994) established the European Monetary Institute (EMI) in Frankfurt, enabling it to begin preparations for the final stage, and encouraged governments to enact legislation to make their central banks independent and to avoid "excessive" budget deficits. The third stage was not well specified in the original Treaty agreement, but it was agreed that the stage could start at earliest in 1997, and at latest in 1999. In May 1995, the Commission published a comprehensive document (which emanated from the Haas Committee's report) in the form of a Green paper (Commission of the European Communities (1995)), detailing the proposed three phase introduction of the new currency within the third stage of the EMU process. The green paper was subsequently agreed upon (with a few minor amendments) at the Dublin summit of the EU Council which was held towards the end of the IGC in December 1996. When the Maastricht Treaty was signed, it was agreed that the Treaty should be reviewed in 1996/97 as part of another IGC which would look at common security, voting procedures for the European Council and admission of Eastern European countries to the EU. The Amsterdam meeting of EU leaders took place in June 1997, and produced the Stability and Growth pact (which ties EMU-participating Member States to specified fiscal policies), and a further amending Treaty to deal with various issues in preparation for the expansion of the EU to the east.

Recent concerns regarding EMU had centred on the unexpected socialist victory in France and consequent doubts as to whether the French would meet the convergence criteria for EMU for 1997. Germany, on the other hand had been particularly concerned about the interpretation of the convergence criteria and how fiscal policy would be coordinated in a post-EMU EU. In the Maastricht Treaty it clearly states that by the beginning of July 1998, "the European Council, acting by a qualified majority on a recommendation from the Commission" (Article 109j:2 of the Treaty) will decide "which Member States fulfil the necessary conditions for the adoption of a single currency". This left some doubts as to whether the rather complicated voting procedure used in the European Council might enable a Member State to use one of the "dynamic let-out" clauses (Article 104c:2a) to play what Fratianni and von Hagen and Waller (1992) have referred to as "end games" (- basically adopting short-term economic policies which