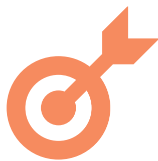
A short guide to the euro

Economic and
Financial Affairs

About the euro



In 1999 the euro was born: it first appeared on payslips, bills and invoices. On 1 January 2002, euro banknotes and coins entered European bank tills, cash registers, purses and pockets for the first time. This marked another major step towards European economic integration, a journey which began with the founding of the European Economic Community in 1957.

Then and now: Steps towards the euro

1957

The European Economic Community is founded, opening a common market for goods, people, services and capital to move ever more freely between Member States.

The common market thrives and expands but trade is hindered because of the numerous currencies in circulation.

1992

The Maastricht Treaty decides that Europe will have a strong and stable single currency for the 21st century.

1999

The euro is launched as a 'virtual' currency.

2002

The euro comes to life and around 8 billion euro banknotes and 38 billion euro coins begin to circulate.

The enlargement of the euro area, which has created the world's second largest economy, is an ongoing process.

What's the aim?

The euro and the Economic and Monetary Union – EMU aim to allow our economies to function more efficiently and effectively, ultimately offering Europeans more jobs and greater prosperity.

A closer look at the euro

The symbol of the euro is €.
The design of euro banknotes is common to all euro area Member States.

Various security features have been incorporated into the euro banknotes. Have a good look at them to check for yourself!

Euro coins have a uniform design on one side and a country-specific design on the other.

The euro around the world

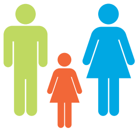
You might be surprised to learn just how well-travelled the euro is! It is used in the Caribbean (Guadeloupe, Martinique and Saint-Barthélémy), in the Indian Ocean (Mayotte and Réunion) and the Atlantic Ocean (Azores, Canaries, Madeira and Saint Pierre and Miquelon) as well as in Ceuta and Melilla on the north coast of Africa and French Guiana in South America. It is also used in Monaco, San Marino, the Vatican City and Andorra as the national currency, and in Kosovo and Montenegro as the *de facto* currency.

Weighing up the benefits

The euro has faced some well-documented challenges in recent years. The debt crisis revealed weak spots that needed to be carefully examined and addressed. The framework for having an Economic and Monetary Union (EMU) has been strengthened as a result.

While it has been important to reflect on the problems of economic governance, we should not forget the huge benefits that the euro has brought to Europe, its citizens and businesses.

What's in it for citizens?



More choice, better prices

There is more competition between shops and suppliers. This means that we benefit from lower prices and price increases are kept in check.

Cross-border shopping is simply easier!

Within the euro area, we don't have to calculate exchange rates, we can now clearly compare prices and we have more choice.

A stable currency

The inflation rate in the euro area has been around 2% each year since the start of the euro. This is remarkably stable and low when we compare it to the rate of 20% (and sometimes more) that some EU countries experienced in the 1970s and 1980s.

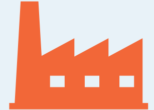
Cheaper and easier travel

When travelling within the euro area, our lives are made far easier than before - we do not need to exchange currencies and therefore we do not pay any exchange fees.

The euro is also easily exchanged in many countries outside the euro area – it is estimated that, in terms of value, between 20% and 25% of euro banknotes circulate outside the euro area.

What's in it for business?

It's simple:
Lower interest rates =
more investment



- Low inflation keeps interest rates low.
- Businesses can borrow more cheaply to invest in, for example, new machinery or research and development.
- New products, new services and higher productivity.
- Economic growth and more and better jobs.

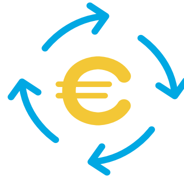
Economic stability encourages long-term planning

Today, European businesses are in a better position to make long-term investments. Interest rates are stable so it's easier to predict whether their investment will generate a profit.

Lower risks and reduced costs encourage cross-border trade and investments

In the past, trade between EU countries involved many currencies with fluctuating exchange rates. To cope with this risk, companies tended to sell at a higher price abroad, which discouraged trade. This risk is now gone.

Additionally, trade within a single market using the same currency is simply more efficient than trade across many markets using multiple currencies. Before the euro, the cost of exchanging currencies in the EU was estimated at €20-25 billion annually. These costs have now disappeared within the euro area.



What's in it for Europe?

More integrated financial markets

Economic and monetary integration makes it much easier for investment capital to move to where it can be used most efficiently. An expanded euro area financial market, which is properly regulated and supervised, also makes more capital available for investment and allows investors to spread risks more widely.

Greater ease of international trade

The euro is being increasingly used for international trade transactions because of its strength and availability, and the confidence it inspires. This allows euro area businesses to pay, and be paid, in euro, making them less vulnerable to global currency fluctuations and easing trade for our partners.

The euro area has a greater international presence

The big players in the global economy meet in international groupings, such as the International Monetary Fund (IMF) and the G7/G20, to promote stability in global markets. The euro is now the second most important world currency after the US dollar. As one of the most important economic areas in the world, the EU has a stronger voice in the world.

Euro benefits: A quick recap

The EMU and the euro give us:

- a stable currency
- low inflation and lower interest rates
- price transparency
- elimination of currency exchange costs
- more integrated financial markets with adequate regulation and supervision
- a better performing economy
- a framework for sounder public finances
- a stronger voice for the EU in the global economy
- greater ease of international trade
- a tangible symbol of European identity

Euro myths: think again

Euro myth: the euro caused prices to rise

By lowering inflation and increasing competition, the euro actually makes life cheaper! As a matter of fact, consumer price data shows that, on average, euro adoption caused far fewer price increases than is commonly believed and the overall effect on prices was very small (a one-off impact of between 0.1 and 0.3% in 2002).

Euro myth: the euro means an unwelcome loss of national sovereignty

Some sovereignty is voluntarily pooled when a country adopts the euro, as governments must co-ordinate their economic policies and control their spending. In today's globalised world, national sovereignty is a relative concept. By coordinating their policies, governments can actually gain influence and power in the economic sphere.

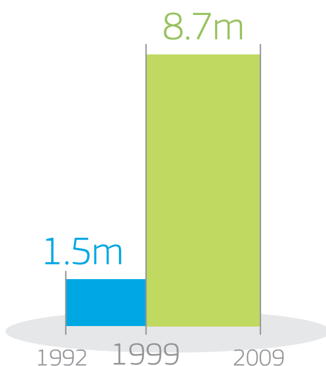
Facts and figures

For the introduction of the euro, 38 billion coins came into circulation. That's around 124 euro coins for every person in the euro area at that time

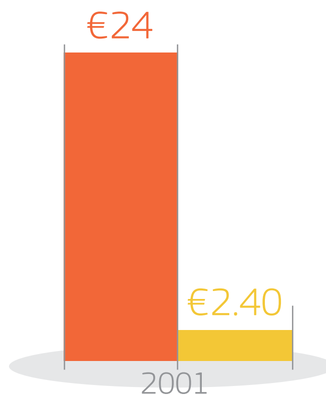
In the first decade after the euro's introduction in 1999, around 8.7 million new jobs were created in the euro area, compared with only 1.5 million in the previous seven years.

The average cost of transferring €100 has been reduced from €24 to €2.40 since rules on cross-border euro payments were introduced in 2001.

Since December 2006, the value of euro banknotes and coins in circulation has generally been higher than the value of US dollar cash in circulation.



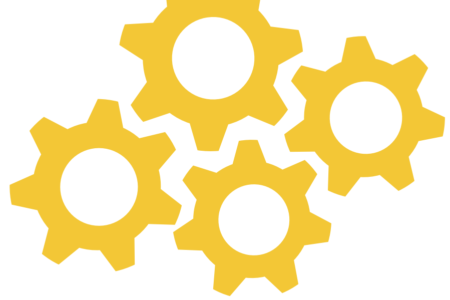
Supporting job creation



Reducing transfer fees

Competing worldwide

Rules of the game: adopting & governing the euro



Bumps along the road

The recent financial and sovereign debt crisis revealed weaknesses in the framework for coordinating economic policies in EMU. In response, the EU has strengthened the rules and procedures through which euro area countries coordinate their economic and budgetary policies. These changes will support our economies in the recovery from the current crisis and help prevent a reoccurance of similar crises in the future.

Joining the club

All EU countries are eligible to join the euro. Countries wishing to join, however, must fulfil a number of entry criteria to show that their economies are ready to have the euro as their currency. These entry or convergence criteria examine whether public finances are on a sustainable footing with reference to benchmarks on the level of budget deficit and public debt. They also seek to ensure that countries have achieved a high degree of macroeconomic stability and competitiveness in terms of low inflation rates and long-term interest rates as well as having a stable exchange rate.

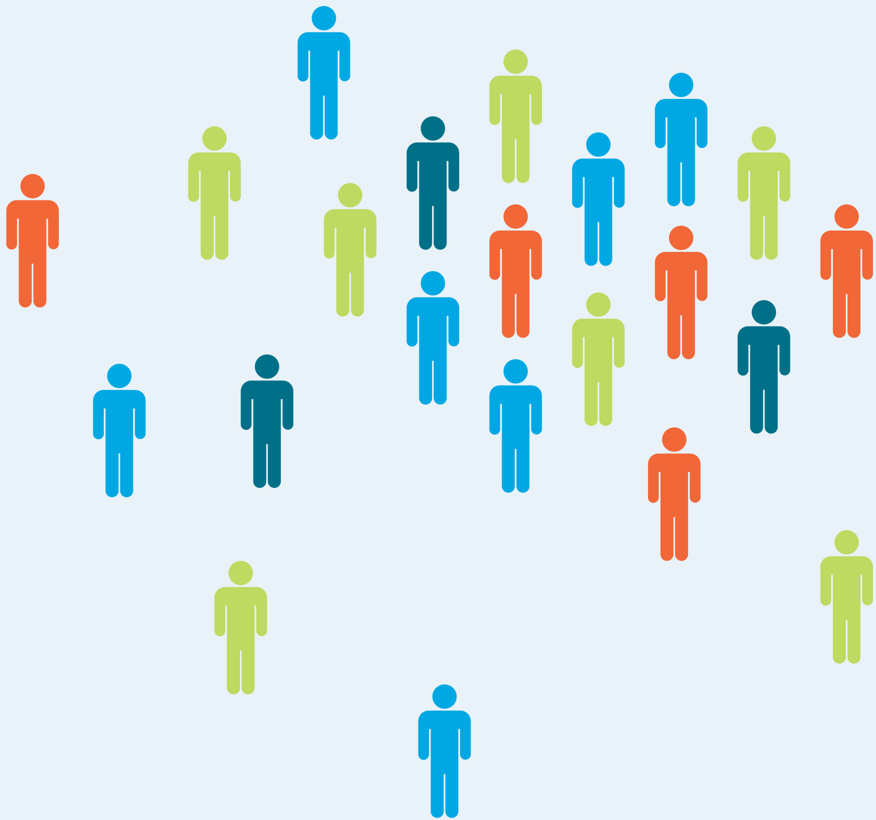
Ensuring sound public finances so as to make a success of being in the euro area

The euro offers many potential benefits, but only if participating countries have sound economic policies. This is why membership of the euro, since the outset, has come with a firm obligation to avoid large and excessive budget deficits and to keep public debt at sustainable levels. This commitment to sound fiscal policies is monitored through a framework known as the Stability and Growth Pact.

This pact has been considerably strengthened as a result of the economic crisis. Governments must now submit their draft budget plans for scrutiny by the Commission and other euro area countries. Rigorous surveillance mechanisms are in place to check that countries will indeed meet the budget targets which all euro area countries have committed themselves to achieve, and sanctions can be imposed if needed.

Ensuring competitiveness and promoting growth

Sound public finances are not the only key to having a thriving economy in the euro area. The crisis also revealed the need for a new approach to the regulation of financial services and for closely monitoring financial market developments. New surveillance instruments have also been established to make sure that euro area countries adopt economic policies that ensure competitiveness and promote growth as well as jobs. Prevention is better than cure, and these new surveillance instruments also aim to prevent damaging bubbles in housing markets.



Who's who?

European Commission

The Commission, and its department for Economic and Financial Affairs (DG ECFIN), in particular, monitor economic developments throughout the EU and helps implement and further develop the legislation explained above.

European Parliament (EP)

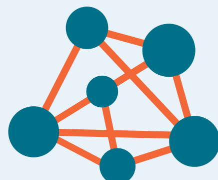
The European Parliament is the legislative body of this process. It hears, discusses, and votes. It decides, together with the Council, or gives its opinion on whether or not a given policy should be enacted.

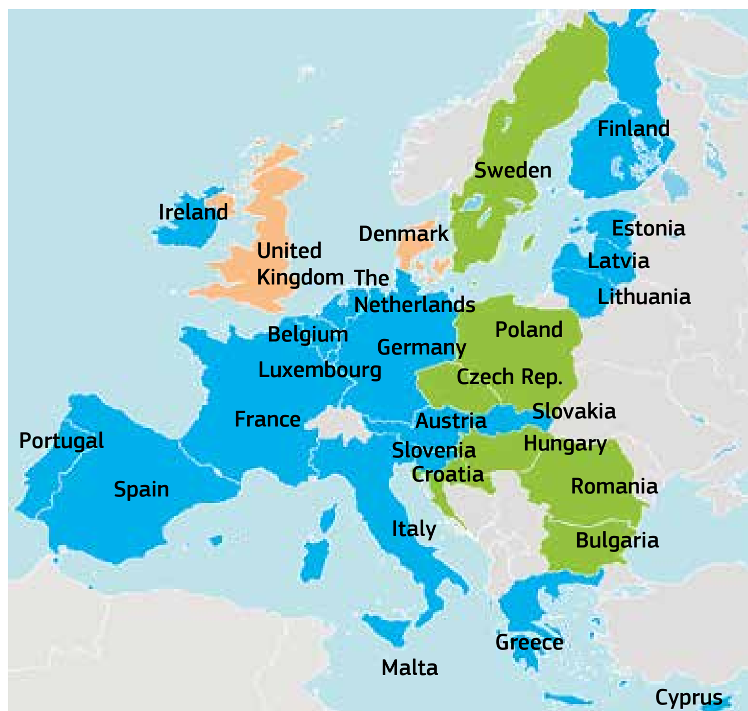
European Central Bank (ECB)

The ECB is an independent EU institution which makes decisions on monetary policy in the euro area with the aim of maintaining price stability.

ECOFIN and the Eurogroup

These are the Council meetings where the bulk of the decisions are made. ECOFIN is comprised of the finance ministers of all EU Member States; the Eurogroup is comprised of finance ministers of all Member States in the euro area.





- Euro area
- EU Member States with an opt-out
- EU Member States that have not yet adopted the euro

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For more info

The euro:
www.ec.europa.eu/euro

European Commission Directorate-General for Economic and Financial Affairs:
www.ec.europa.eu/economy_finance/index_en.htm

The European Commission:
www.ec.europa.eu

The European Central Bank:
www.ecb.eu

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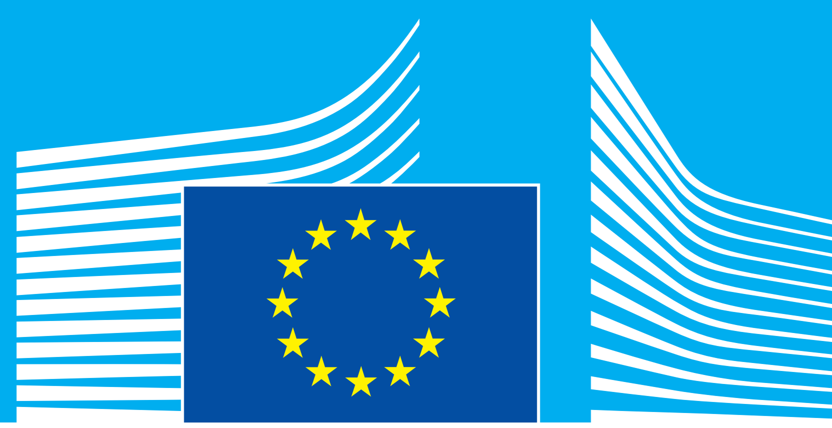
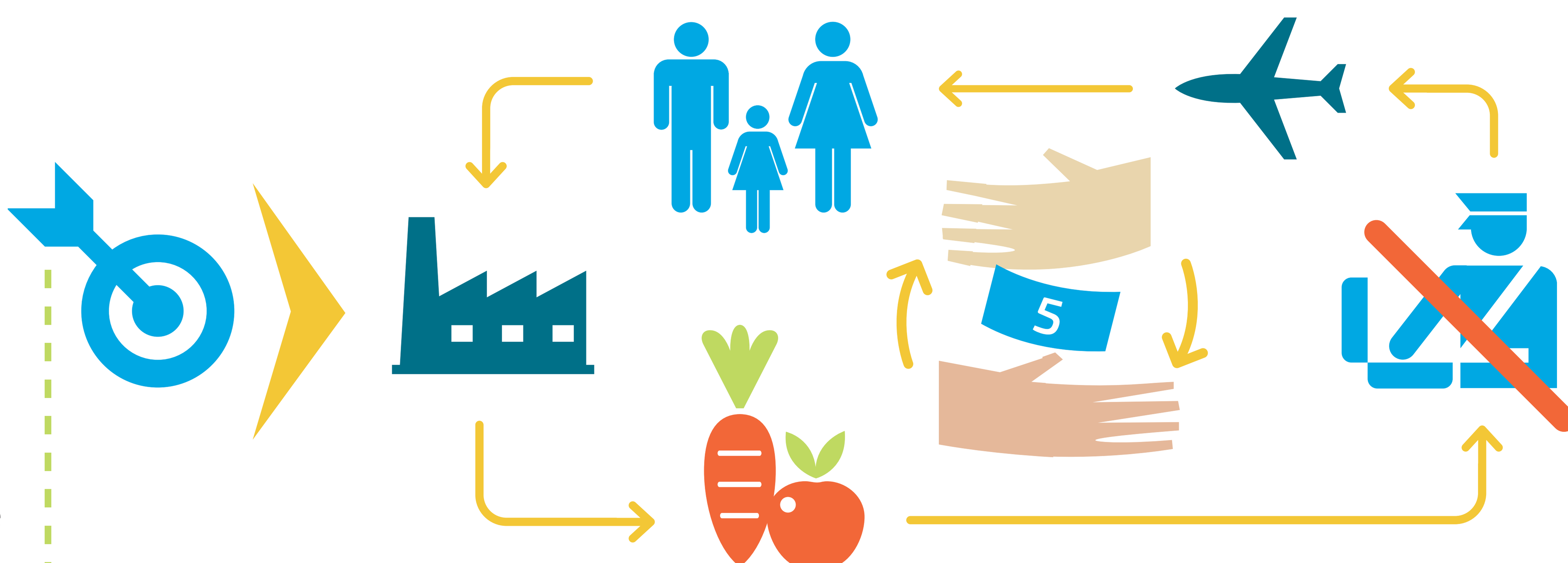


Towards a common currency: the euro journey

Preparing the future of our common market

The foundation of the European Economic Community back in 1957 saw the birth of a common market and the beginning of European integration. It allowed for goods, people, services and capital to move ever more freely between Member States, without barriers.



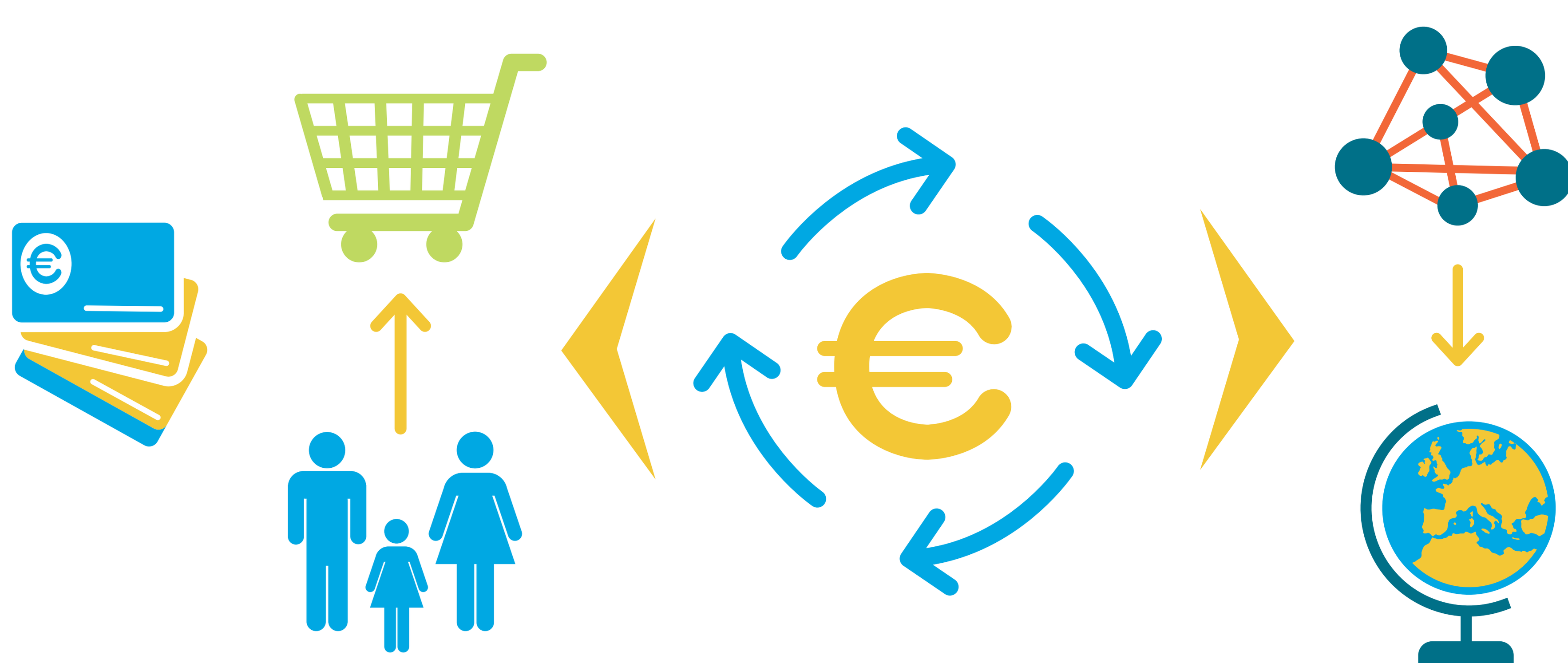
The common market becomes a reality

As exchange and movement across Europe became more common, it became clear that the single market was restricted by the many currencies in circulation. How could we break this additional barrier to integration? In 1992, the Maastricht Treaty decided that Europe would have a strong and stable single currency for the 21st century.

The euro comes to life

On 1 January 2002, euro banknotes and coins entered our bank tills, cash registers, purses and pockets. Since then, the euro area has grown, bringing tangible benefits to an ever-increasing number of citizens and businesses.

The enlargement of the euro area is an ongoing and dynamic process.



Keeping the euro on track

There have always been criteria and rules in place to bring stability and harmony to the euro area economy. However, in response to some weak spots highlighted during the crisis, they have been strengthened to form the new EU economic governance framework which enforces the rules to help struggling euro area countries get back on track and avoid similar problems in the future.

Economic and Financial Affairs