European Commission

A short guide to the euro

Economic and Financial Affairs

About the euro

In 1999 the euro was born: this was when 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 economic integration in Europe, 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 Under the Maastricht Treaty, it is agreed 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 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 euro banknotes. Have a good look at them to see for yourself.

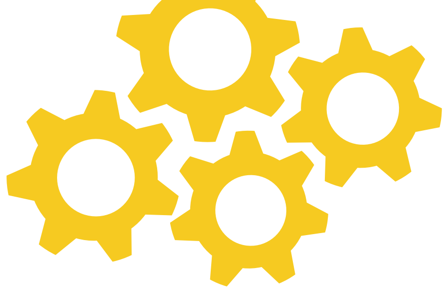
Euro coins have a uniform design on one side and a country-specific design on the other.

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 Barthélemy), in the Indian Ocean (Mayotte and Réunion) and in the Atlantic Ocean (the Azores, the Canary Islands, Madeira, and Saint Pierre and Miquelon), as well as in Ceuta and Melilla on the north coast of Africa and in French Guiana in South America. It is also used in Andorra, Monaco, The Holy See and San Marino as the national currency, and in Kosovo (1) and Montenegro as the de facto currency.

(1) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Rules of the game: adopting and 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 which euro-area Member States must follow in order to coordinate their economic and budgetary policies. These changes will support our economies and help prevent a recurrence of similar crises in the future.

Joining the club

All EU Member States are eligible to adopt the euro. Member States wishing to join the euro area, 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 for budget deficit and public debt. They also seek to ensure that Member States 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.

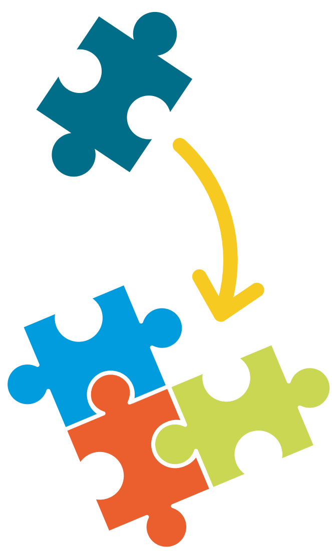
Ensuring sound public finances

The euro offers many potential benefits, but only if participating Member States have sound economic policies. This is why, from the outset, membership of the euro area 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 refined since the economic crisis. Governments must now submit their draft budget plans for scrutiny by the Commission and other euro-area Member States. Rigorous surveillance mechanisms are in place to check that Member States meet the budget targets that they have committed to achieve, and sanctions can be imposed if necessary.

Ensuring competitiveness and promoting growth

Sound public finances are not the only key to 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 Member States adopt economic policies that ensure competitiveness and promote growth as well as jobs. Prevention is better than cure, and these new surveillance instruments aim to prevent damaging economic imbalances such as housing market bubbles.



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 of 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, especially to 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 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

Since its introduction, the inflation rate of the euro area has been around 2 % each year. This is remarkably stable and low when we compare it to the rate of 20 % (and sometimes more) that some EU Member States experienced in the 1970s and 1980s.

Cheaper and easier travel

When travelling within the euro area, our lives are made far easier — we no longer 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. Stable interest rates make it easier to predict whether these investments will generate a profit.

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

In the past, trade between EU Member States involved many currencies with fluctuating exchange rates. In order to manage this risk, companies tended to sell at a higher price abroad, which discouraged trade. This risk no longer exists.

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

What's in it for Europe?

More integrated financial markets

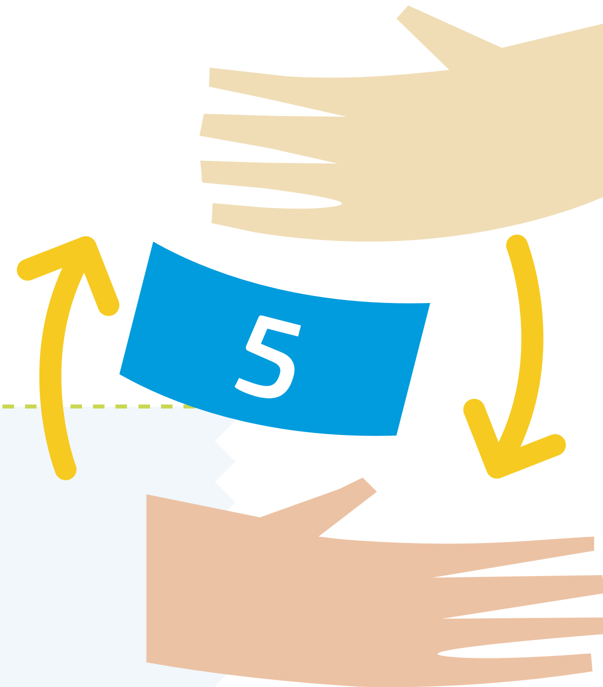
Economic and monetary integration makes it much easier for investment capital to move to where it can be used most efficiently. An expanded euro-area financial market, which is properly regulated and supervised, also makes more capital available for investment and allows investors to spread risks more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

The euro area has a significant international presence

The big players in the global economy meet in international groupings, such as the International Monetary Fund 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 global economic areas, the EU has a stronger voice in the world.

The euro is an advantage for European companies trading internationally

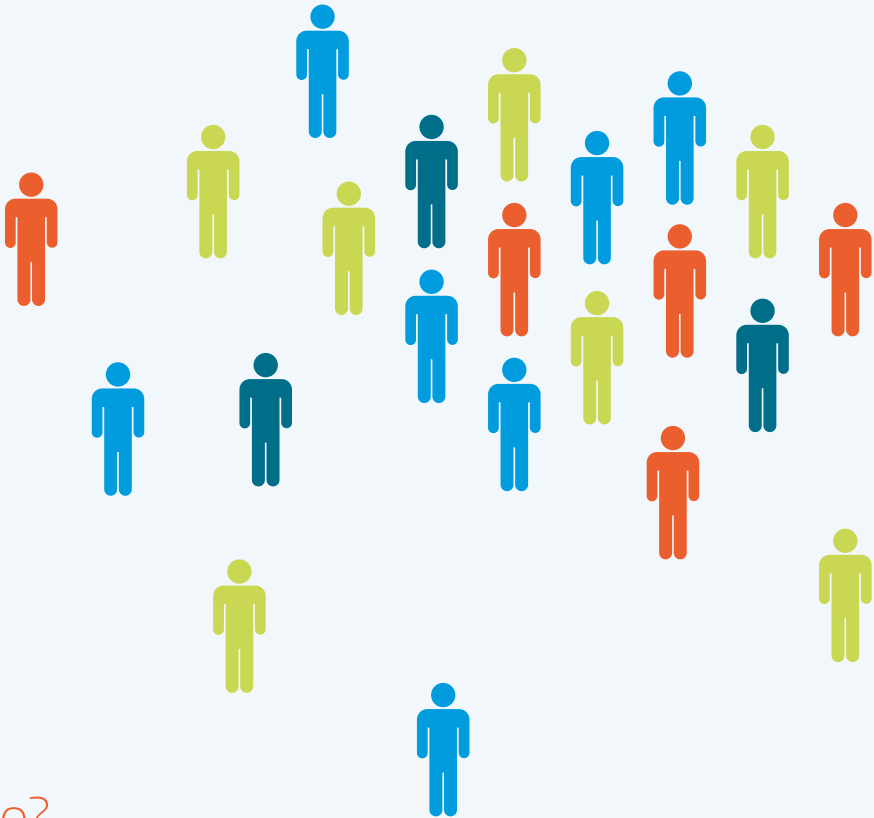
The euro is a favoured currency in international trade transactions because of its strength and availability, and the confidence it inspires. This allows euro-area businesses to pay, and be paid, in euros, making them less vulnerable to global currency fluctuations and easing trade for our partners.



Euro benefits: a quick recap

EMU and the euro give us:

- a stable currency;
- low inflation and lower interest rates;
- price transparency;
- no 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;
- an advantage in international trade;
- a tangible symbol of European identity.



Who's who?

European Commission

The Commission, in particular its Directorate-General for Economic and Financial Affairs, monitors economic developments throughout the EU and helps implement and further develop the legislation explained above.

European Central Bank

The European Central Bank is an independent EU institution that makes decisions on monetary policy in the euro area with the aim of maintaining price stability. The Bank, in cooperation with national supervisors, is also responsible for ensuring the consistent and effective supervision of the European banking sector.

European Parliament

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.

The Economic and Financial Affairs Council and the Eurogroup

The meetings of these bodies are where the bulk of euro-related decisions are made. The Economic and Financial Affairs Council 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 myths: think again

Euro myth: the euro caused inflation to rise

The euro actually makes life cheaper. Over the years, the euro has kept inflation and price rises very low in the euro area, increasing competition.

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

In today's globalised world and economy, working together as euro-area Member States actually strengthens national sovereignty. Although a country pools some sovereignty voluntarily when it adopts the euro, it coordinates economic policies and controls spending for the mutual benefit of all euro-area Member States, meaning that it can actually gain influence and power in the economic sphere.

Facts and figures

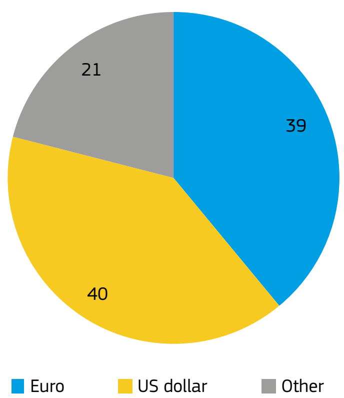
When the euro was launched, 38 billion coins came into circulation. That's around 124 coins for every person in the euro area at that time.

The euro is an attractive reserve currency for other countries. In 2017, around 20 % of worldwide reserves were held in euros.

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

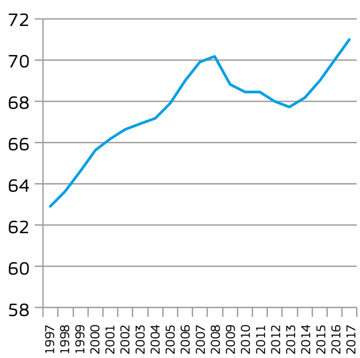
Around 39 % of the volume of global financial transactions, excluding intra-euro-area payments, is denominated in euros, compared to 40 % in US dollars.

The share of euro in global payments — 2017 (%)



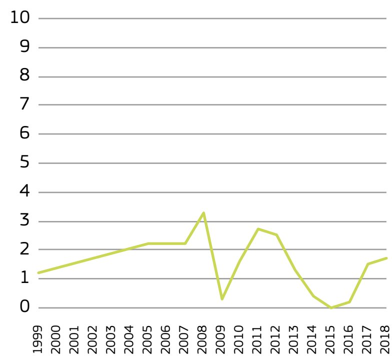
A currency for international trade

Euro area employment rate (population aged 20-64)

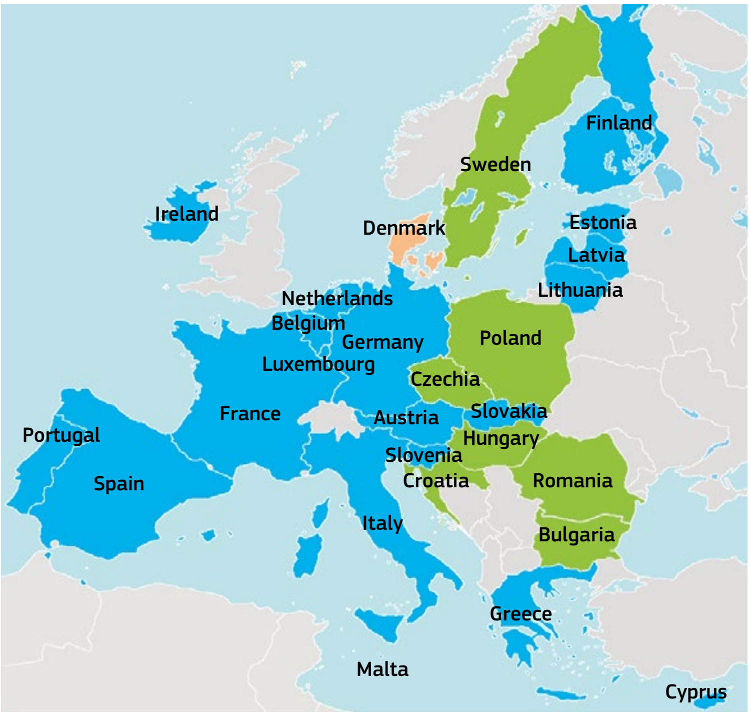


A currency for growth and jobs

Inflation %, euro area



A currency for stability



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

KC-03-19-576-EN-C

For more info

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

European Commission Directorate-General for Economic and Financial Affairs:
https://ec.europa.eu/info/departments/economic-and-financial-affairs_en

The European Commission:
https://ec.europa.eu/commission/index_en

The European Central Bank:
https://www.ecb.europa.eu/home/html/index.en.html
Manuscript updated: March 2019.

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Publications Office
of the European Union

ISBN 978-92-76-09624-5
doi:10.2765/62380

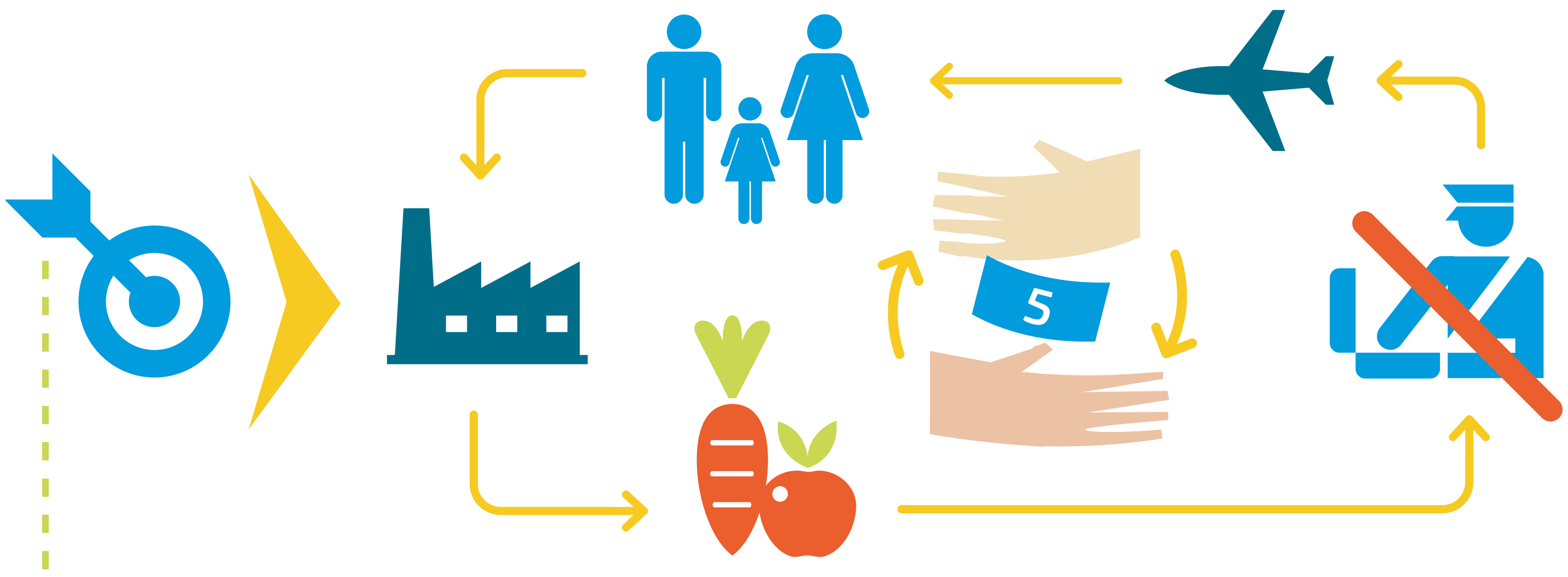
European
Commission

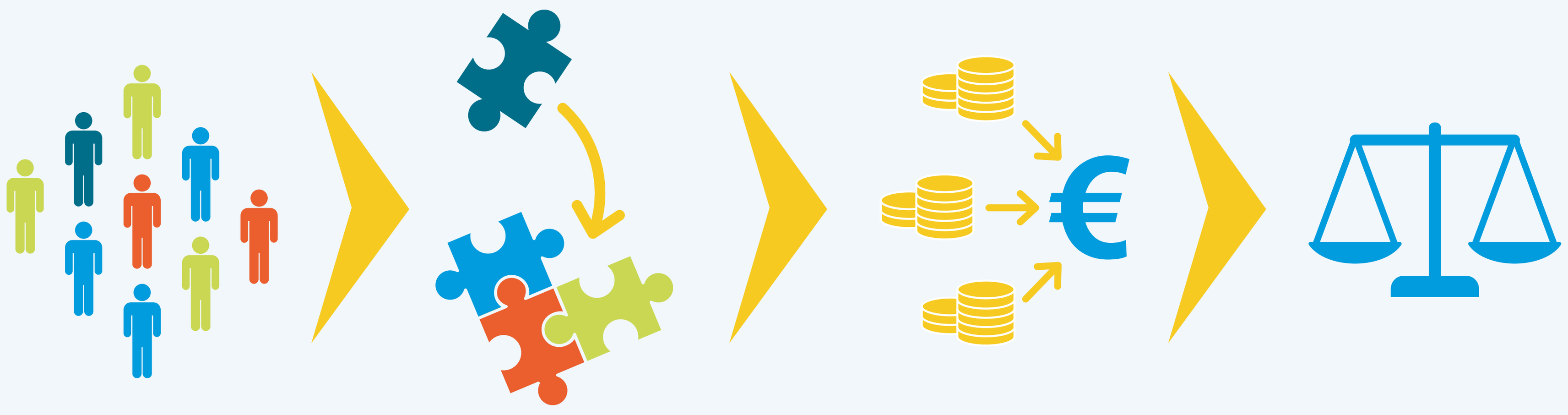
Towards a common currency: the euro 's journey

1957

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.





1992

The common market becomes a reality

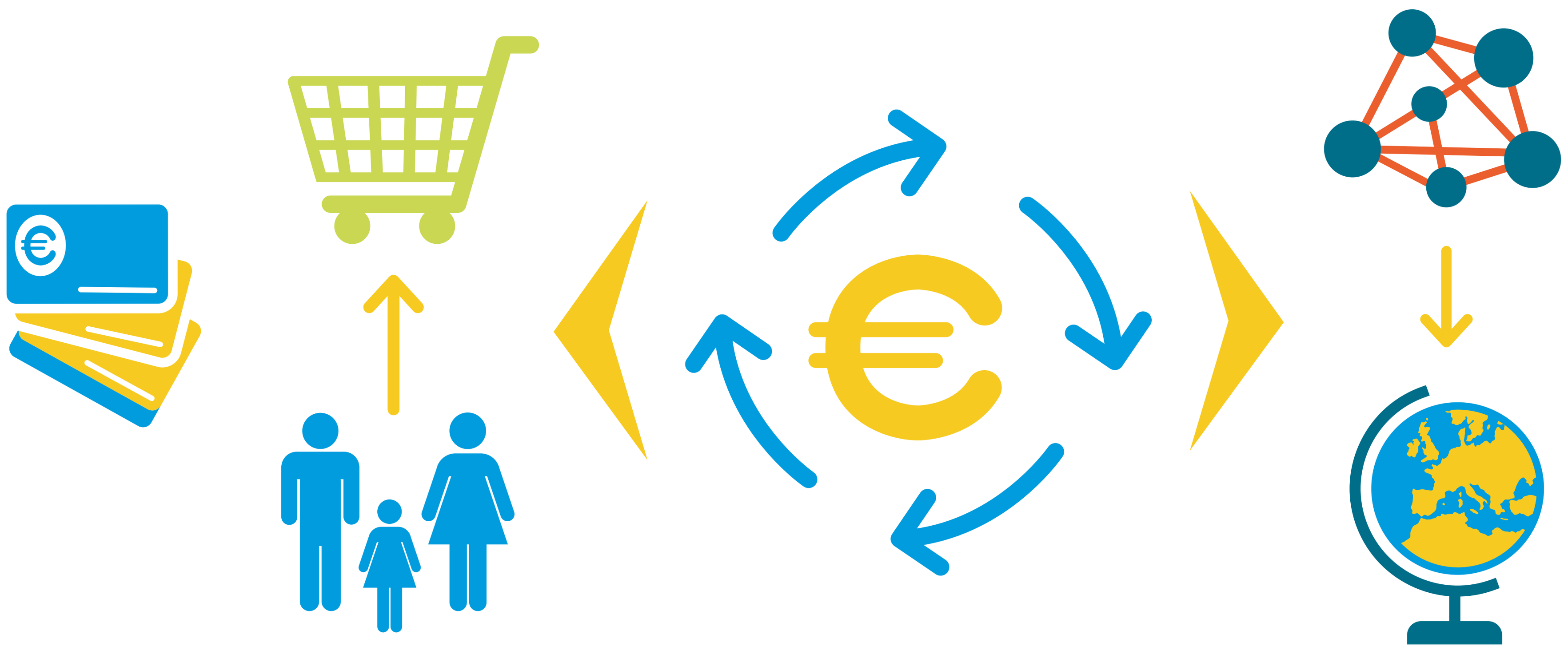
As exchange and movement across Europe increased, it became clear that the single market was restricted by the many currencies in circulation. How could we break this additional barrier to integration? In 1992, it was agreed under the Maastricht Treaty that Europe would have a strong and stable single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

2002

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.



TODAY

Keeping the euro on track

There have always been criteria and rules to bring stability to the euro area economy. The euro area's economic governance framework has been strengthened since the crisis to help struggling countries get back on track and avoid problems in the future. The European Commission is also working to make EMU deeper and fairer.