



## European Commission Economic and Financial Affairs

### The euro

The euro is the single currency shared by (currently) 17 of the European Union's Member States, which together make up the euro area. The introduction of the euro in 1999 was a major step in European integration. It has also been one of its major successes: around 330 million EU citizens now use it as their currency and enjoy its benefits, which will spread even more widely as other EU countries adopt the euro.

When the euro was launched on 1 January 1999, it became the new official currency of 11 Member States, replacing the old national currencies – such as the Deutschmark and the French franc – in two stages. First introduced as a virtual currency for cash-less payments and accounting purposes, while the old currencies continued to be used for cash payments and considered as 'sub-units' of the euro, it then appeared in physical form, as banknotes and coins, on 1 January 2002. The euro is not the currency of all EU Member States. Two countries (Denmark and the United Kingdom) agreed an 'opt-out' clause in the Treaty exempting them from participation, while the remainder (many of the newest EU members plus Sweden) have yet to meet the conditions for adopting the single currency. Once they do so, they will replace their national currency with the euro.

### Which countries have adopted the euro – and when?

- 1999 Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland
- 2001 Greece
- 2002 Introduction of euro banknotes and coins
- 2007 Slovenia
- 2008 Cyprus, Malta
- 2009 Slovakia
- 2011 Estonia

### The euro and Economic and Monetary Union

All EU Member States form part of Economic and Monetary Union (EMU), which can be described as an advanced stage of economic integration based on a single market. It involves close co-ordination of economic and fiscal policies and, for those countries fulfilling certain conditions, a single monetary policy and a single currency – the euro. The process of economic and monetary integration in the EU parallels the history of the Union itself. When the EU was founded in 1957, the Member States concentrated on building a 'common market'. However, over time it became clear that closer economic and monetary co-operation was desirable for the internal market to develop and flourish further. But the goal of achieving full EMU and a single currency was not enshrined until the 1992 Maastricht Treaty (Treaty on European Union), which set out the ground rules for its introduction. These say what the objectives of EMU are, who is responsible for what, and what conditions Member States must meet in order to adopt the euro. These conditions are known as the 'convergence criteria' (or 'Maastricht criteria') and include low and stable inflation, exchange rate stability and sound public finances.

### Who manages it?

When the euro came into being, monetary policy became the responsibility of the independent European Central Bank (ECB), which was created for that purpose, and the national central banks of the Member States having adopted the euro. Together they compose the Eurosystem. Fiscal policy (tax and spending) remains in the hands of individual national governments – though they undertake to adhere to commonly agreed rules on public finances known as the Stability and Growth Pact. They also retain full responsibility for their own structural policies (labour, pension and capital markets), but agree to co-ordinate them in

order to achieve the common goals of stability, growth and employment.

### Who uses it?

The euro is the currency of the 330 million people who live in the 17 euro-area countries. It is also used, either formally as legal tender or for practical purposes, by a whole array of other countries such as close neighbours and former colonies. It is therefore not surprising that the euro has rapidly become the second most important international currency after the dollar, and in some respects (e.g. the value of cash in circulation) has even overtaken it.

### Why do we need it?

Apart from making travel easier, a single currency makes very good **economic** and **political** sense. The framework under which the euro is managed makes it a stable currency with low inflation and low interest rates, and encourages sound public finances. A single currency is also a logical complement to the single market which makes it more efficient. Using a single currency increases price transparency, eliminates currency exchange costs, oils the wheels of the European economy, facilitates international trade and gives the EU a more powerful voice in the world. The size and strength of the euro area also better protect it from external economic shocks, such as unexpected oil price rises or turbulence in the currency markets. Last but not least, the euro gives the EU's citizens a tangible symbol of their European identity, of which they can be increasingly proud as the euro area expands and multiplies these benefits for its existing and future members.