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Commission

one currency  many opportunities



ONE CURRENCY FOR ONE EUROPE

The road to the euro



ToGEThe[®]
SINCE 1957



1950

1960

1970

Foreword

2007 marks the 50-year anniversary of the Treaty of Rome, a historic undertaking which drew a veil over centuries of conflict and set Europe on an unprecedented path of cooperation and integration. The original signatories have been joined by new participants along the way, giving rise to a community of diverse nations, united around the common values of freedom, democracy, the rule of law, respect for human rights, and equality.

The euro, enshrined as a goal in the Maastricht Treaty in 1992, born as a virtual currency in 1999 and first appearing as cash in people's pockets in 2002, is an important and tangible manifestation of this community of values.

Of course, the euro is not the currency of all European Union member countries: many of the newer EU members are still working towards meeting the conditions required to adopt the single currency while the UK and Denmark have negotiated opt-outs from the obligation to join.

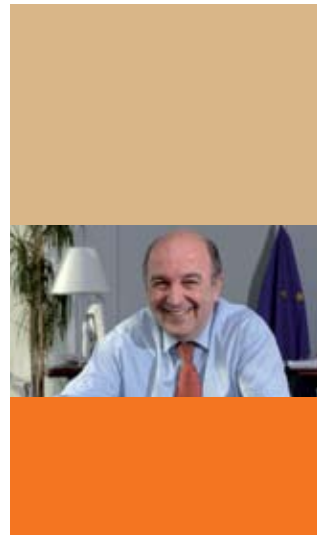
But, while our economic and monetary union (EMU) is clearly still evolving, the scale of the achievement and its positive impact on the lives of Europeans remain considerable. The euro area's 13 member countries and more than 315 million citizens make it one of the world's largest economic powers. Given that 2007 marks another important milestone – five years of using euro notes and coins in our everyday life – it is worth recalling the benefits the single currency has brought.

We all gain from the stability created by the macroeconomic framework of EMU which brings price stability and sound public finances. Individuals and enterprises benefit from the ease with which they can travel and conduct business across borders. EMU facilitates trade integration, reduces costs and can help us generate growth and jobs. A single currency makes prices comparable, leading to greater competition and more opportunity. As capital markets integrate, investment becomes easier and cheaper. The euro's emergence as a strong international currency in turn grants Europe a stronger role in the world. With the euro now a familiar part of daily life from the Mediterranean to the Arctic Circle, it provides tangible evidence of our common European identity.

Making the common currency a reality is a remarkable achievement of which all Europeans can be proud. The story of that achievement – how the euro came into being, how it is managed and the benefits it brings – is set out in this brochure. I hope you enjoy reading it.



Joaquín Almunia
Commissioner for Economic and Monetary Affairs



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ONE CURRENCY FOR ONE EUROPE

The road to the euro

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What is economic and monetary union?

Generally, economic and monetary union (EMU) is part of the process of economic integration. Independent states can integrate their economies to varying degrees in order to achieve the benefits of size, such as greater internal efficiency and more robustness to external events. The degrees of economic integration can be divided into six steps.

STEPS OF ECONOMIC INTEGRATION

1. A preferential trading area (with reduced customs tariffs between certain countries)
2. A free trade area (with no internal tariffs on some or all goods between the participating countries)
3. A customs union (with the same external customs tariffs for third countries and a common trade policy)
4. A common market (with common product regulations and free movement of goods, capital, labour and services)
5. Economic and monetary union (a single market with a single currency and monetary policy)
6. Complete economic integration (all the above plus harmonised fiscal and other economic policies)

ECONOMIC INTEGRATION AND EMU IN EUROPE

The degree of economic integration in the European Union (EU) varies. All Member States in the EU are part of what we call EMU and form a common market, known as the **single market**. They all coordinate their economic policymaking to support the aims of EMU. Adopting the euro is an obligation laid down in the Treaty establishing the European Community (the Treaty or **EC Treaty**). Several Member States are more integrated and have adopted a single currency — the euro. These countries form the euro area and, as well as the single currency, have a single **monetary policy** conducted by the **European Central Bank**. Those Member States which are not part of the euro area retain their own currencies and conduct their own monetary policies. So, the degree of economic integration within EMU is a hybrid of steps 4 and 5 in the list above. To reach complete economic integration would require all Member States to join the euro area and harmonise their fiscal policies, including taxation, and other economic policies.

Words printed in blue are explained in the glossary at the end

Building on the past

Economic integration between independent states is not new. The Latin monetary union, comprising France, Belgium, Switzerland, Italy and Greece, existed from 1865 until 1927. The Scandinavian monetary union of Sweden, Denmark and Norway lasted from 1873 until 1924. The German **ZOLLVEREIN** is perhaps one of the most successful examples, beginning with a customs union between German principalities in 1834 and producing a central bank, the Reichsbank, and a single currency, the Reichsmark, in 1875.





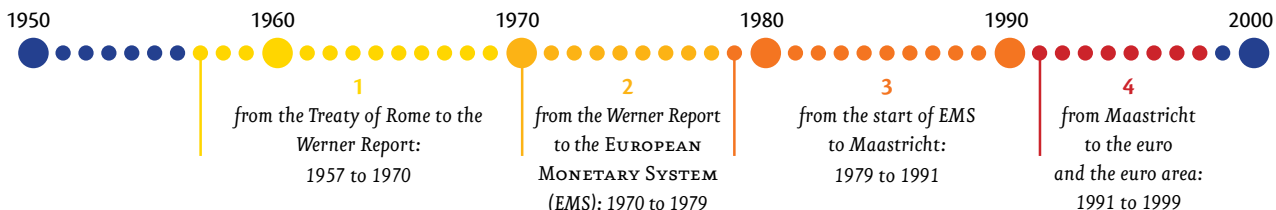
The path to economic and monetary union: 1957 to 1999

EMU was a recurring ambition of the European Union from the late 1960s because it promised currency stability and an environment for higher growth and employment. However, a variety of political and economic obstacles barred the way until the signing of the **MAASTRICHT TREATY** (the Treaty on European Union or EU Treaty) in 1992. At various times, weak political commitment, divisions over economic priorities, lack of economic convergence and developments in

international currency markets outside the Union's control all played their part in frustrating progress towards EMU.

Nevertheless, the second half of the 20th century saw a constant search by the Member States for deeper economic cooperation as a means of strengthening the political bonds between them and protecting the common market.

The passage towards today's economic and monetary union can be divided into four phases:



FROM THE TREATY OF ROME TO THE WERNER REPORT: 1957 TO 1970

Treaty of Rome has little to say about money

The post-war order for the market economies of Europe, North America and Japan was founded on the **Bretton Woods** system which provided the international framework for currency stability with gold and the US dollar as the predominant monetary standard. The authors of the **Treaty of Rome** therefore assumed that stable currencies would remain the norm, and that Europe's construction could be securely based on achieving a customs union and a common market allowing the free movement of goods, services, people and capital.

Currency turmoil strikes in the late 1960s

The Bretton Woods system had already begun to show signs of strain in the late 1950s, and by 1968–69 a new era of currency instability threatened when market turbulence forced a revaluation of the Deutschmark and the devaluation of the French franc. This endangered the common price system of the common agricultural policy — which was, at that time, the main achievement of the European Community.

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above: Signing of the Treaty of Rome (25 March 1957)

below: Pierre Werner

The Community seeks economic prosperity and political development in EMU

Against this troubling background, and with the customs union largely achieved, the Community was anxious to set itself new goals for political development during the next decade. The 1969 Barre Report, which proposed greater economic coordination, brought new impetus, and EMU became a formal goal at a summit in The Hague in 1969. Europe's leaders set up a high-level group under the then Luxembourg Prime Minister, Pierre Werner, to report on how EMU could be achieved by 1980.

The Werner Report — EMU in three stages

The Werner group submitted its final report in October 1970, setting out a three-stage process to achieve EMU within a 10-year period. The final objective would be irrevocably convertible currencies, free movement of capital, and the permanent locking of exchange rates — or possibly a single currency. To achieve this, the report called for closer economic policy coordination with interest rates and management of reserves decided at Community level, as well as agreed frameworks for national budgetary policies.

FROM THE WERNER REPORT TO THE EUROPEAN MONETARY SYSTEM: 1970 TO 1979

While the Member States were divided over some of the report's main recommendations, they agreed in principle in March 1971 on a three-stage approach to EMU. The first stage, narrowing of exchange-rate fluctuations, was to be tried on an experimental basis without any commitment to the other stages.

Unfortunately, the Werner strategy took fixed exchange rates against the dollar for granted. When the United States effectively floated the dollar from August 1971, the fresh wave of market instability put upward pressure on the Deutschmark and squashed hopes of tying the Community's currencies more closely together.

Snake in the tunnel

To retrieve the situation, in March 1972, the Member States created the '**snake in the tunnel**' as a mechanism for managing fluctuations of their currencies (the snake) inside narrow limits against the dollar (the tunnel). Hit by oil crises, policy divergence and dollar weakness, within two years the snake had lost many of its component parts and was little more than a Deutschmark zone comprising Germany, Denmark and the Benelux countries.

The 'quick death' of the snake did not diminish interest in trying to create an area of currency stability. A new proposal for EMU was put forward in 1977 by the then President of the European Commission, Roy Jenkins. It was taken up in a more limited form and launched as the **European Monetary System (EMS)** in March 1979 with the participation of all the Member States' currencies except the pound sterling.

Roy Jenkins,
President of the European
Commission from 1977 to 1981



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FROM THE START OF EMS TO MAASTRICHT: 1979 TO 1991

Controlling inflation becomes EC priority

The European Monetary System (EMS) was built on the concept of stable but adjustable exchange rates defined in relation to the newly created European currency unit (ECU) — a basket currency based on a weighted average of EMS currencies. Within the EMS, currency fluctuations were controlled through the **exchange rate mechanism (ERM)** and kept within $\pm 2.25\%$ of the central rates, with the exception of the lira, which was allowed to fluctuate by $\pm 6\%$.

While the EMS's primary purpose was to reduce exchange-rate instability which was seen as damaging to trade, investment and economic growth, its creation was undoubtedly helped by a new consensus among Member States that controlling and reducing inflation had to become an economic priority. The EMS was a radical new departure because exchange rates could only be changed by mutual agreement of participating Member States and the Commission — an unprecedented transfer of monetary autonomy.

EMS — a decade of success

In the first few years, there were many realignments in the EMS. But by the time of the negotiations on the Maastricht Treaty in 1990–91, the EMS had proved a success. Short-term volatility of exchange rates between EC currencies was substantially reduced thanks to a mixture of converging inflation rates, interest rate management which targeted the exchange rate, joint intervention in the foreign exchange market and capital controls.

This success formed an encouraging backdrop to the discussions on EMU, together with the valuable experience in the joint management of exchange rates gained by the Community's central banks.

The single currency would complete the single market

The case for EMU turned on the need to complete the single market, the programme adopted in 1985 for removing all remaining barriers to the free movement of goods, services, people and capital. It was clear that the full benefits of the internal market would be difficult to achieve with the relatively high business costs created by the existence of several currencies and unstable exchange rates.

In addition, many economists and central bankers took the view that national monetary autonomy was inconsistent with the Community's objectives of free trade, free capital movements and fixed exchange rates. For many, this view was later confirmed by the turmoil which hit the ERM in 1992–93, causing the withdrawal of the lira and the pound sterling, and the widening of the fluctuation bands to 15%.



The Delors Report recommends EMU in three stages

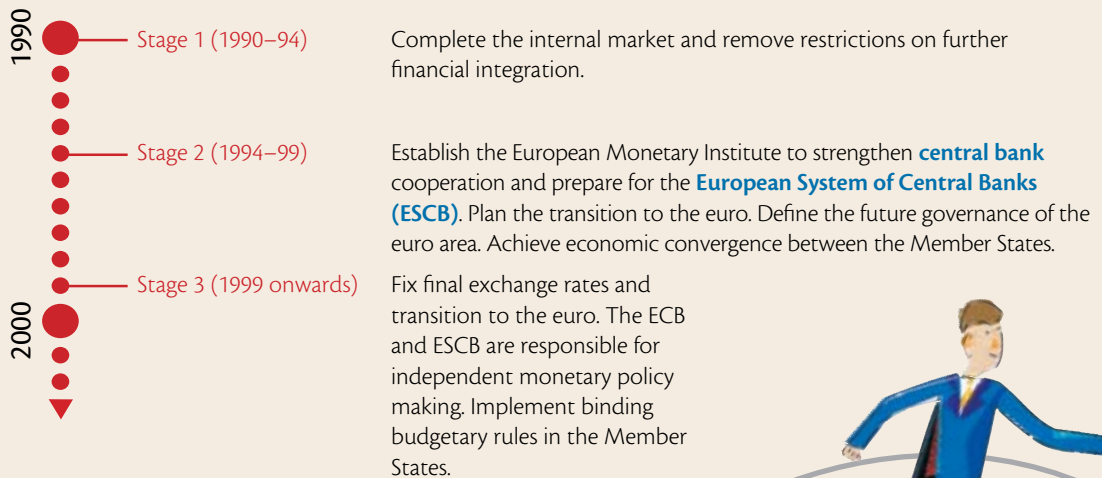
In June 1988, the **European Council** meeting at Hanover set up the Committee for the Study of Economic and Monetary Union, chaired by the then President of the Commission, Jacques Delors, and including all EC central bank governors. Their unanimous report, submitted in April 1989, defined the monetary union objective as a complete liberalisation of capital movements, full integration of financial markets, irreversible convertibility of currencies, irrevocable fixing of exchange rates and the possible replacement of national currencies with a single currency.

The report indicated that this could be achieved in three stages, moving from closer economic and monetary coordination to a single currency with an independent European Central Bank and rules to govern the size and financing of national budget deficits.



Jacques Delors,
President of the European
Commission from 1985 to 1995

The three stages towards EMU





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Towards political,
economic and monetary
union: the Maastricht
Treaty

And so to Maastricht

On the basis of the Delors Report, the Madrid European Council of June 1989 decided to proceed to the first stage of EMU in July 1990, and the 1989 Strasbourg European Council called for an intergovernmental conference to determine the Treaty revisions that would be needed to move to the second and third stages and implement EMU.

The first stage of EMU involved completing the internal market, starting with the coordination of economic policies and removing obstacles to financial integration. For the following stages, substantial preparatory work by central bank governors greatly eased the work of revising the Treaty.

The Treaty on European Union was approved by the Heads of State or Government at the European Council at Maastricht in December 1991 where it was decided that Europe would have a strong and stable single currency by the end of the century.

For economic and monetary union to provide a framework for more jobs and growth and to avoid disruption, it was necessary for the Member State economies to have achieved a high degree of convergence before introducing the single currency. Therefore, the Treaty on European Union set the 'Maastricht convergence criteria' that Member States would have to meet in order to adopt the euro. These are shown in Table 1. In addition to these, Member States would have to achieve convergence of the national laws and rules governing their national central banks and monetary issues.

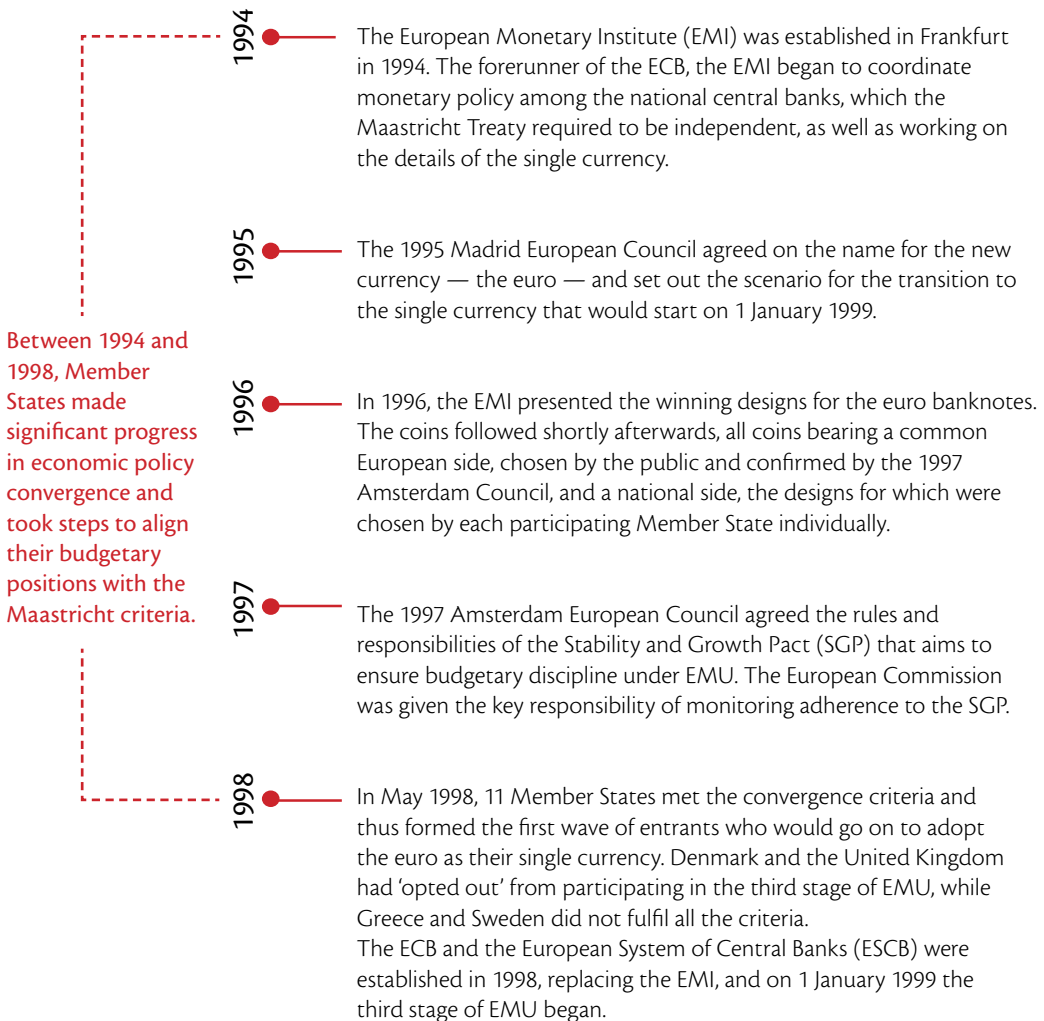
Table 1. The Maastricht convergence criteria

What is measured	How it is measured	Convergence criteria
<i>Price stability</i>	Harmonised consumer price inflation rate	Not more than 1.5 percentage points above the rate of the three best performing Member States
<i>Sound public finances</i>	Government deficit as % of GDP	Reference value: not more than 3 %
<i>Sustainable public finances</i>	Government debt as % of GDP	Reference value: Not more than 60 %
<i>Durability of convergence</i>	Long-term interest rate	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability
<i>Exchange rate stability</i>	Deviation from a central rate	Participation in ERM for two years without severe tensions

The Maastricht convergence criteria were designed to ensure that a Member State's economy was sufficiently prepared for the adoption of the single currency. They provided a common baseline for the stability, soundness and sustainability of public finances for euro area candidates that reflected economic policy convergence and a resilience to economic shocks. The exchange rate criterion was intended to show that a Member State could manage its economy without recourse to currency depreciation.

FROM MAASTRICHT TO THE EURO AND THE EURO AREA: 1991 TO 1999

With agreement on the goal (EMU) and the conditions (the Maastricht criteria), the European Union could now move forward. Stage two of EMU began in July 1994 and lasted until the introduction of the single currency in 1999. Within stage two, a wide variety of preparatory activities were initiated.





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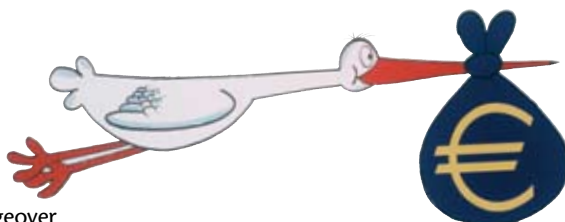
The euro is launched: 1999 to 2002

On 31 December 1998, the conversion rates between the euro and the currencies of the participating Member States were irrevocably fixed. On 1 January 1999, the euro was introduced and the **Eurosystem**, composed of the ECB and the national central banks (NCBs) of the euro area Member States, took over responsibility for monetary policy in the new euro area. This was the beginning of a transitional period that was to last three years and end with the introduction of euro banknotes and coins and the withdrawal of national banknotes and coins. In 2000, the **Council** decided that Greece fulfilled the necessary conditions for the adoption of the single currency, and the country joined the euro area on 1 January 2001.

While the euro replaced national currencies immediately, with the national currency units becoming sub-units of the euro, it initially existed only as scriptural or 'book' money. National currency banknotes and coins remained the means of everyday cash transactions. During the transitional period it was the world of business and finance that began to use the euro in their everyday cashless operations. For the financial markets this transition happened immediately — the ground was well prepared and trading in financial markets was exclusively in euro. For administrations and business there was a longer transition period as they gradually switched their systems for accounting, pricing and payments over to the euro. For citizens the most visible part of the transition was the appearance of dual pricing on labels in shops and petrol stations, etc. This was part of an extensive publicity campaign to familiarise the general public with the euro and the coming introduction of banknotes and coins.

Rates posted in euros at an automatic distributor

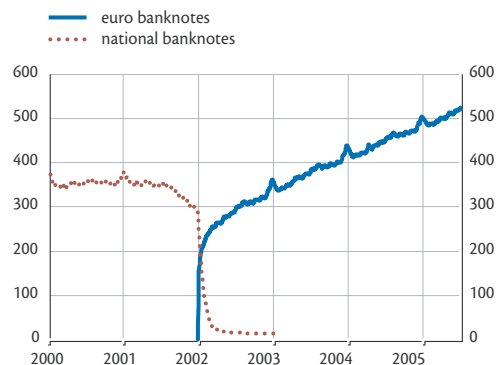
A NEW YEAR AND A NEW CURRENCY



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On 1 January 2002, the greatest cash changeover in history took place. It was a challenge of unprecedented dimensions that involved the banking sector, cash-in-transit companies, retailers, the cash-operated machine industry, and the general public. Around EUR 144 billion in euro cash was provided early by the national central banks to banks (frontloading) and by these banks to retailers (sub-frontloading) to avoid bottlenecks in the supply chain. This meant that euro cash was widely available in all sectors in the first days of 2002. By 3 January 2002, 96 % of all automated teller machines (ATMs) in the euro area were dispensing euro banknotes. And already one week after the introduction, more than half of all cash transactions were being conducted in euro.

Total value of banknotes in circulation between 2000 and June 2005 (EUR billion)



Source: ECB.

The cash changeover was completed within two months. National banknotes and coins ceased to be legal tender by the end of February 2002 at the latest, and earlier in some Member States. By that time, more than 6 billion banknotes and close to 30 billion national coins had been withdrawn, and for over 300 million citizens in 12 countries the euro had finally arrived.

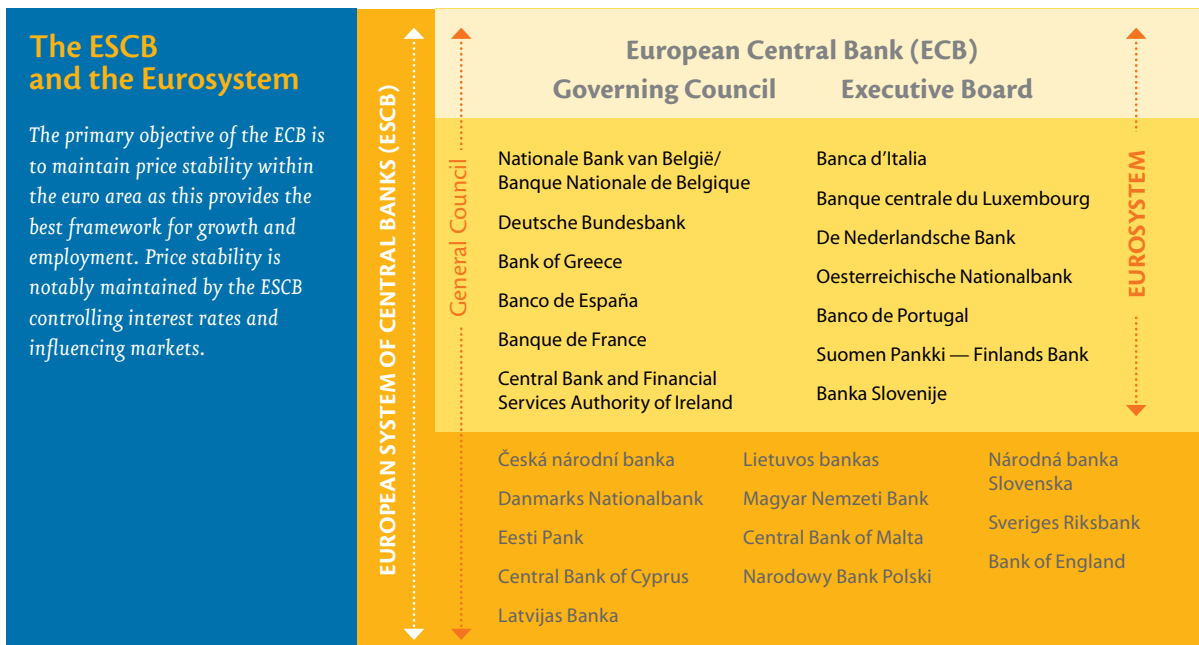
Managing economic and monetary union

Like the single market, EMU is not an end in itself. It is an instrument to further the objectives of the European Union — in particular, balanced and sustainable economic growth and high employment. The operations and institutions of EMU were designed from the outset to support these objectives through the management of the monetary and economic aspects of the euro area.

MONETARY POLICY

The euro area has one currency with one monetary policy and independent, centralised decision making.

The ECB and the central banks of all EU Member States form the European System of Central Banks (ESCB). Within the ESCB, the ECB and the central banks of the euro area Member States form the Eurosystem. Decisions on monetary policy in the euro area can only be taken by the Governing Council of the ECB, which comprises the governors of the national central banks of those Member States that have adopted the euro and the members of the Executive Board of the ECB. The Governing Council of the ECB is its supreme decision-making body.



Status as of 1 January 2007



ECONOMIC POLICY

The responsibility for euro area economic policy remains largely with the Member States, although the EC Treaty requires them to coordinate their economic policymaking with a view to achieving the objectives of the Community. This coordination is ensured through the Commission and the **Ecofin** Council, which comprises the ministers for economics and finance of the Member States. There are a number of structures and instruments that help coordination.

The Eurogroup

This is an informal grouping of the ministers for economics and finance of those Member States that are in the euro area, which elects its own president who serves a two-year term. The Commission and the ECB also take part in Eurogroup meetings. The Eurogroup is a forum for discussing euro-area-related issues and policy coordination.



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*Jean-Claude Juncker,
Prime Minister and Minister
for Finance of Luxembourg and
Chairman of the Eurogroup*

The Stability and Growth Pact:

With its emphasis on surveillance of Member States' economies, the SGP helps enforce fiscal discipline within EMU and ensure sound government finances. The Commission monitors government deficits and debt, which the Treaty requires to be less than 3 % and less than 60 % of GDP respectively. If these limits are breached, the Council can initiate an excessive deficit procedure including, as a last resort, financial penalties against the Member State concerned.



The broad economic policy guidelines (BEPGs)

These are the principal instrument of economic policy coordination in the EU. They have a key role to play in promoting macroeconomic stability, structural reform and the smooth functioning of EMU. The BEPGs are non-binding guidelines for the economic policies of the Community and the Member States. They are based on the economic policy discussions between the European institutions and Member States. As a result of these discussions, the European Commission may produce recommendations for the Community and each Member State that are adopted by the Council of Ministers. The Council and the European Commission monitor the implementation of these guidelines. The BEPGs set the standard against which subsequent national and European economic policy decisions are measured. In the event of non-compliance, the Council can issue a non-binding recommendation for corrective action.

Looking forward to euro area enlargement

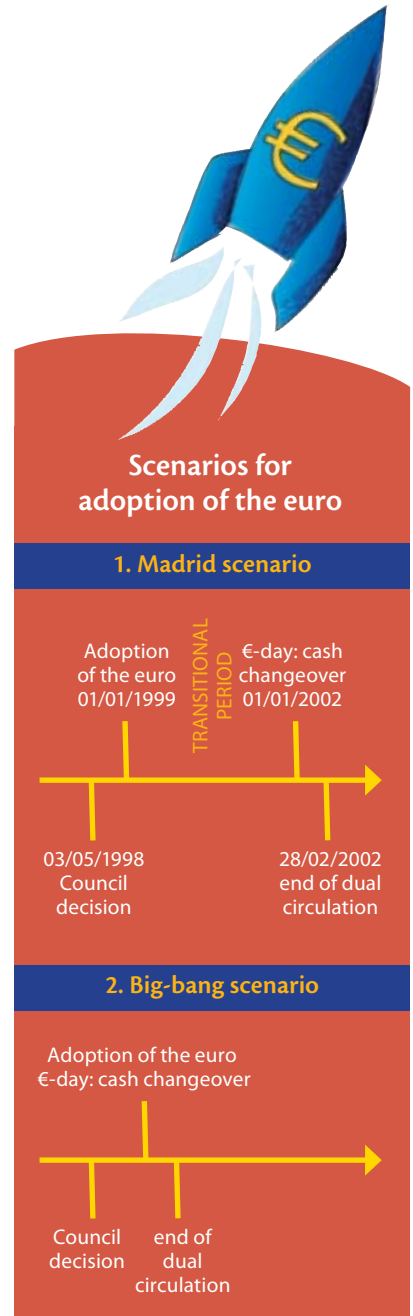
The Member States that joined the EU in 2004 and 2007 are part of EMU — which means that they coordinate their economic policymaking with the other EU Member States and that their central banks are part of the ESCB. However, as they did not join the euro area immediately on accession, their official status until they adopt the single currency is 'Member States with a derogation'. This status is granted by the Act of Accession and obliges them to become full members of the euro area eventually. The new Member States did not join the euro area immediately upon accession because they did not meet the convergence criteria. The Treaty of Accession therefore allows them time to undertake the adjustments needed to achieve convergence. The first of the new Member States to join the euro area was Slovenia in 2007.

THE NEED FOR CONVERGENCE

The convergence criteria — the Maastricht criteria — are the economic targets and institutional changes that a country must achieve before adopting the single currency and entering the euro area. The macroeconomic indicators shown in Table 1 are used as a measure of convergence.

SCENARIOS FOR ADOPTION

While countries that want to join the euro area have to meet the convergence criteria, the actual process of introducing the euro may differ among later entrants. When the euro area was created, the founding Member States had a three-year transitional period between adopting the euro as 'book money' for non-cash transactions in 1999 and the introduction of euro cash in 2002. In this 'Madrid scenario', as it is called, a three-year transitional period allows individuals and businesses to prepare for the single currency before it appears in their pockets. During this transitional period, they still use their national currency for cash transactions. However, a number of future Member States of the euro area will adopt a so-called 'Big Bang scenario' whereby they adopt euro cash immediately upon entering the euro area and quickly withdraw their national currencies from circulation.





THE EURO AREA



Achievements so far

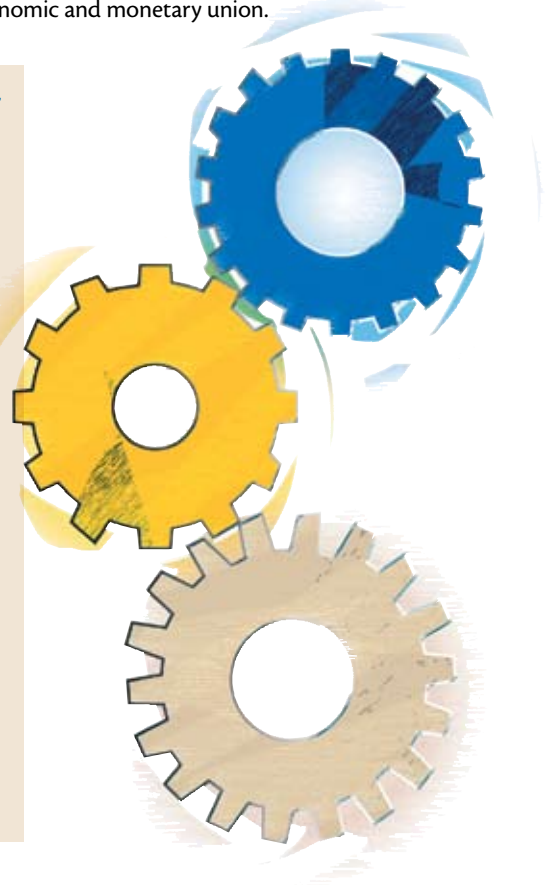
SOUND INSTITUTIONS FOR A SOUND ECONOMY

The institutional framework for managing EMU has proved a clear success and reflects the strong commitment of the euro area Member States to cooperate on economic issues of 'common concern'. This cooperation is vital for the growth and jobs — and rising living standards — that the single market and EMU support.

Single countries, such as the United States and Japan, have a centralised monetary policy and a centralised **fiscal policy** operated by a single government. In the euro area, things are different. While the euro area has a centralised independent monetary policy operated by the ECB, fiscal policy, which deals with the income and expenditure side of national budgets, is the responsibility of national governments, though subject to a number of rules at EU level. Therefore, the cooperation and coordination between euro area Member States on matters of fiscal policy is the key element that drives economic and monetary union.

EMU is built on several strong groupings that have together proved successful in managing its operations:

- the **European System of Central Banks**, which brings together the central banks of all EU Member States, the Eurosystem — i.e. the ECB plus the national central banks of those Member States that have adopted the euro — and the ECB; the ECB determines monetary policy with a clear mission to ensure price stability;
- the **European Commission** which, through its Commissioner and Directorate-General for Economic and Financial Affairs, monitors and assesses the economic situation in the Member States and makes recommendations;
- the **Council**, in its Economic and Financial Affairs configuration (Ecofin Council), where the government ministers for economics and finance from the Member States meet to define broad economic guidelines and take decisions on recommendations from the Commission, which also takes part in the meetings; ministers from the euro area meet as the Eurogroup — an informal grouping in which the Commission and the ECB participate.

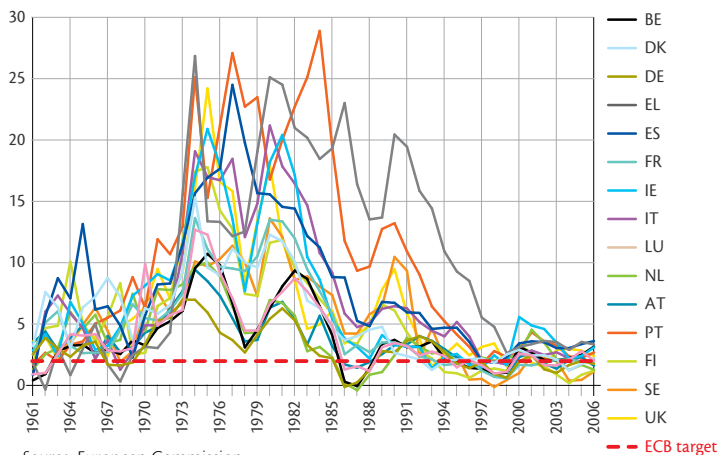




ECONOMIC STABILITY — A BENEFIT FOR ALL

The currency turbulence and high inflation during much of the 1970s and 1980s brought difficulties and uncertainty to many. However, during the build-up to economic and monetary union, inflation fell substantially. Subsequently, inflation has been kept at low levels. The ECB's primary mission is to control price inflation at an annual level of below, but close to, 2% inflation over the medium term. The historical development of inflation is shown in the graph to the right.

Inflation convergence: euro area 12 (annual % increases)



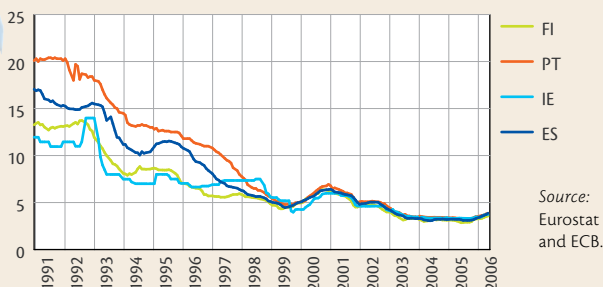
Source: European Commission.

The advantages that low inflation and stable prices bring are many and benefit both businesses and consumers.



- Consumer borrowing is less expensive and future repayments less uncertain. So, ordinary citizens can borrow more easily and more safely, for example in order to buy a house or a car, with more certainty about the future repayment levels.

Mortgage rates in four euro area countries



- Businesses have more incentives for investment. When inflation is high and volatile, lenders build in a safety margin to the interest rate, a so-called risk premium. With low, stable inflation these safety margins are no longer necessary, so money is released for businesses to invest more — benefiting growth and jobs.
- Society, social cohesion and the less well-off all benefit. Volatile changes in inflation increase the gap between the richer and poorer sections of society. With stable inflation, the less well-off are better protected against erosion of their wealth and purchasing power.

THE SINGLE CURRENCY — A COMPLEMENT TO THE SINGLE MARKET

Dealing with multiple currencies entails costs and makes price comparisons difficult, even within the single market. The single currency — the euro — removes these disadvantages and brings benefits to both consumers and businesses.

- The costs of exchanging money at borders, so-called transaction costs, have disappeared in the euro area. This reduces the costs for travellers, whether for business, study or vacation. Previously, an individual with DM 1 000 in his or her pocket who travelled through 15 Member States, changing money in each one, would have less than DM 500 left on returning home — without having made a single purchase. Today, someone starting out with EUR 1 000 would return home with the same amount in his or her pocket.
- The euro brings price transparency to the single market. Consumers and businesses can easily compare prices for goods and services across the EU. This has the effect of increasing competition among suppliers and keeping downward pressure on prices in the euro area. This transparency is supported by low, stable price inflation because changes in relative prices can be more easily identified. Competition is further increased by the growth of e-commerce over the Internet, which allows easy cross-border price comparisons.
- Transaction costs can be very large — before the adoption of the euro they were estimated at 0.3 to 0.4 % of GDP in the EU, i.e. EUR 20–25 billion. Companies incurred a large part of these costs as they transferred goods, people and capital around the EU. With the disappearance of transaction costs within the euro area, this money is now available for productive investments in growth and jobs, and intra-Community trade is encouraged. Furthermore, removing transaction costs within the single market makes the euro area attractive for foreign investment.



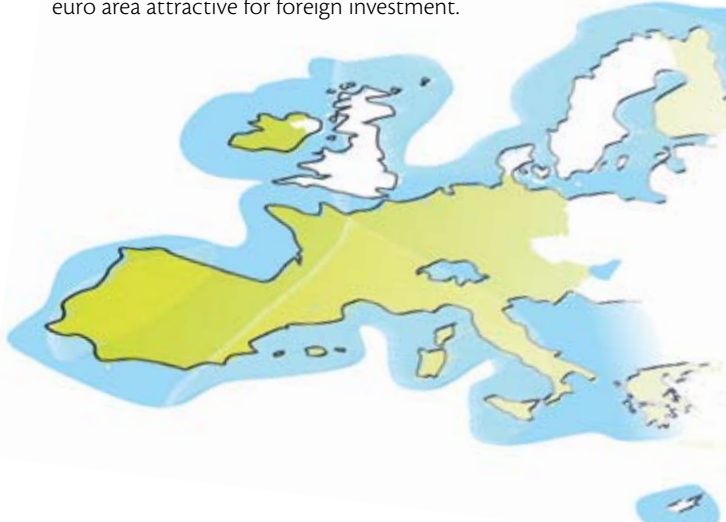
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THE INTERNATIONAL ROLE OF THE EURO

The euro is a strong international currency. Backed by the commitment of the euro area Member States, the strong and visible management of monetary policy by the ECB, and the size and power of the euro area as a bloc, the euro has become an attractive world currency like the US dollar or the Japanese yen. Table 2 compares some major economic indicators of the euro area and the EU with the United States and Japan:



© Christophe Marjolei/PhotoAlto

Table 2

Key indicators (2004)	Euro area	EU-25	US	Japan
Population (millions)	311	459	294	127
GDP (in trillion EUR calculated at purchasing power parity)	7.6	10.3	10.2	3.3
Share of world GDP (% at PPP)	15.3	21.1	20.9	6.9
Exports (*) (goods and services as % of GDP)	19.5	12.8	9.8	13.6
Imports (*) (goods and services as % of GDP)	17.8	12.6	15.1	11.6

(*) Excluding intra-EU trade.

Source: ECB Data: 2004.

As the table shows, the euro area is a strong and open trading bloc. This openness, combined with the strength of the euro under EMU, brings **several advantages**.

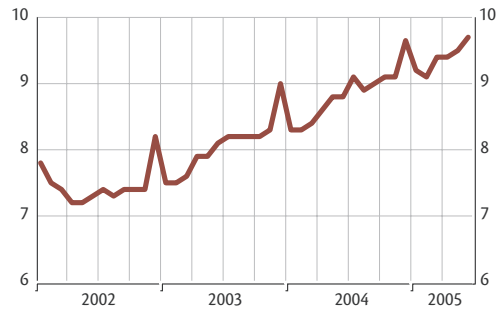
- As the world's largest trading power, the euro area is an attractive destination for trading nations which want to do business within the single market. Euro area businesses can invoice and pay in euro, which reduces their costs and risk and allows better business planning.
- The euro is an attractive reserve currency for other countries. The share of the euro in official foreign exchange reserves held by central banks around the world is increasing and stood at around 25 % at the end of 2004, much more than the national currencies it replaced.
- The strength of the euro and its increasing use in international trade gives the euro area a strong voice in international financial institutions and organisations, such as the International Monetary Fund, the Organisation for Economic Cooperation and Development (OECD) and the World Bank. While the Member States are often directly represented on these bodies, the Ecofin Council, the Commission, and the ECB take part separately, or as part of an EU delegation, in relevant meetings of these international organisations.



The euro in numbers

Around 14 billion euro banknotes were produced, worth EUR 633 billion, and 52 billion euro coins — using 250 000 tonnes of metal — in preparation for the euro launch. Around 7.8 billion banknotes worth EUR 140 billion were available in the euro area on the morning of 1 January 2002 when euro cash was launched. Since then, demand has grown continuously as the graph to the right shows (the peaks in the growth are due to extra demand for banknotes around the Christmas period):

Total number of euro banknotes in circulation between 2002 and June 2005 (billion)



Source: ECB.



By 2005, there were nearly 10 billion euro banknotes in circulation with a value of over EUR 500 billion and over 63 billion euro coins with a value of more than EUR 16 billion — the notes can be withdrawn from over 229 000 ATMs in the euro area.

The ECB has the exclusive right to authorise the issuance of euro banknotes. Their production is shared between the national central banks. Euro coins are issued by the Member States of the euro area in volumes approved by the ECB.



The euro in pictures



EURO BANKNOTES ALL HAVE THE SAME DESIGNS

These were chosen through a competition organised throughout the EU. The winning designs were inspired by the theme 'the ages and styles of Europe' and depict architectural styles from seven periods of Europe's cultural history: Classical, Romanesque, Gothic, Renaissance, Baroque and Rococo, the age of iron and glass, and modern architecture. All depict elements such as windows, gateways and bridges. Banknotes have different sizes, striking colours and raised areas on the surface that help the partially sighted recognise the denominations.

Security features

Both euro banknotes and coins have advanced security features to fight counterfeiting. A 'raised' print gives a special feel to banknotes, which also have watermarks, security threads and holograms visible from both sides. Unique metal compositions and machine-readable features protect the coins.



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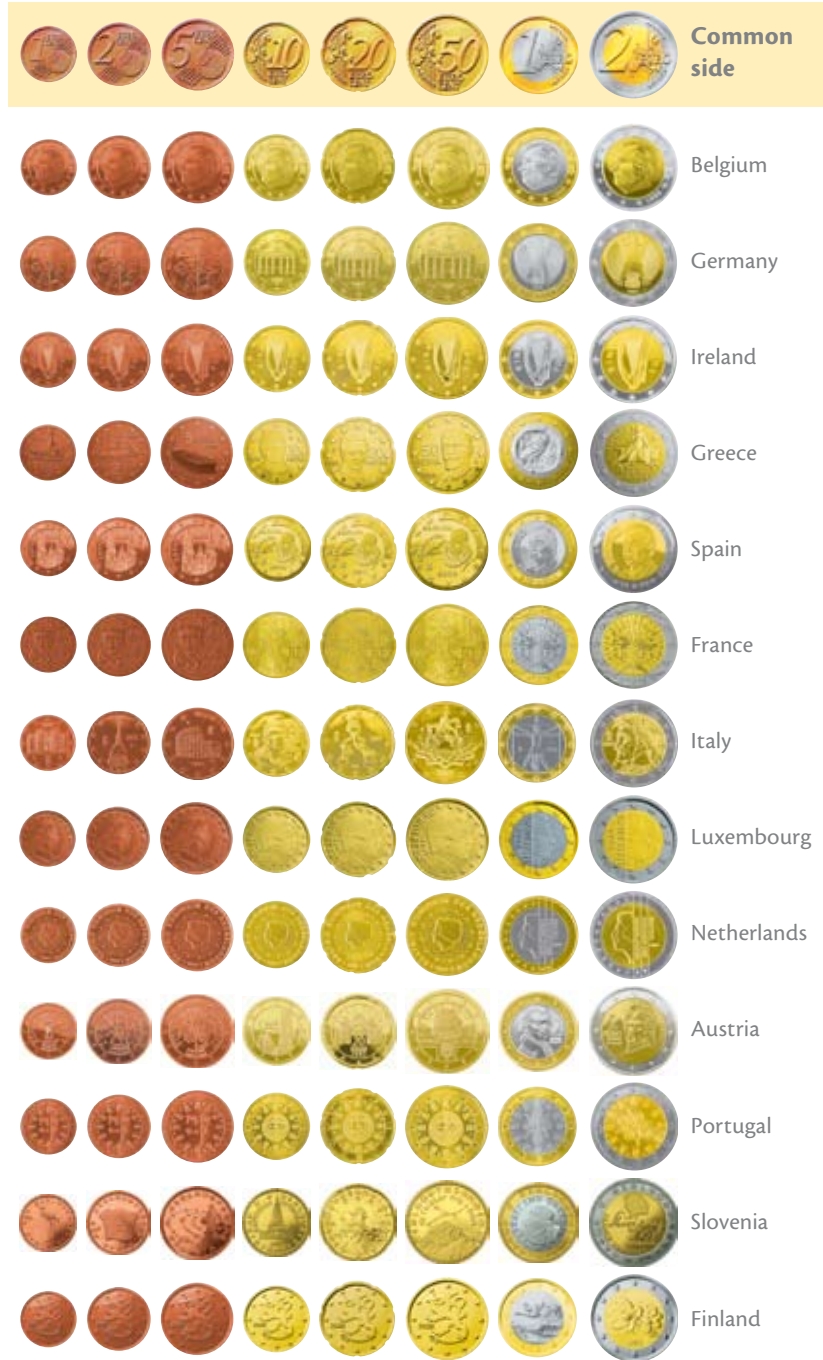
The ECB website presents an animation to show the security features: www.ecb.eu

EURO COINS HAVE DIFFERENT DESIGNS

Euro coins have a common design on one side, and a country-specific design on the reverse. Each euro area member chooses its own series of designs, reflecting its specific history or culture — often selected by competition. As well as the euro area members, Monaco, San Marino and the Vatican City have permission to produce euro coins. The common designs on several coins show a map of the euro area; this design will be updated to reflect an enlarged euro area. The new common designs will appear on the coins issued by the new euro area members as they adopt the euro and will also be introduced gradually by the existing members.

Special designs for special events

Each Member State of the euro area can issue a 2 euro commemorative coin once a year. These coins have the same features and properties and the same common side as normal 2 euro coins. What makes them different is their commemorative design on the national side. For example, in 2005 Finland issued a commemorative 2 euro coin to celebrate the founding of the United Nations and Finland's membership; and Greece issued a commemorative coin in 2004 to celebrate the Athens Olympics.





Glossary

Bretton Woods: This was a system of international monetary management agreed in 1944 between the world's major industrial powers. It required the signatories to link their currencies to the price of gold and thus support international monetary stability.

Central bank: A national bank that manages a country's money reserves and controls the physical supply of money.

The Council (Council of the European Union): Comprises the representatives of the governments of the Member States. It is the decision-making body of the European Union. Government representatives meet in different Council configurations; for instance, the government ministers responsible for environmental matters meet in the Environment Council.

Ecofin: The Council of the European Union in its configuration comprising the ministers for economics and finance of EU Member States.

EC Treaty: See Treaty of Rome.

Eurogroup: The ministers for economics and finance of the euro area Member States.

European Central Bank (ECB): The central bank for the euro area. The ECB independently manages the monetary policy of the euro area.

European Council: Meetings of the

Heads of State or Government of the Member States of the European Union and the president of the European Commission.

European Monetary System (EMS): A system for managing currency fluctuations, put in place by the European Community in 1979 to replace the 'snake in the tunnel'.

European System of Central Banks (ESCB): Comprises the central banks of the EU and the ECB.

Eurosystem: Part of the ESCB that consists of the central banks of the euro area and the ECB.

Exchange rate mechanism (ERM): A feature of the European Monetary System, whereby EMS members agreed to maintain the relative prices of their currencies within narrow limits against the ECU. The ERM was replaced when the euro was introduced in 1999 by ERM II, whereby the currencies of EU Member States are linked to the euro within a fluctuation band of $\pm 15\%$.

Fiscal policy: Concerns the management of government revenues (e.g. taxation) and expenditure (e.g. spending on healthcare).

Maastricht Treaty (Treaty on European Union): Signed in 1992 in the Dutch city of Maastricht between the Member States of the European Community, the Maastricht Treaty

expanded the remit of the European Community, turning it into the European Union, and led to the creation of EMU and the euro.

Monetary policy: Concerns managing the supply of money in an economy, for example by printing money or setting interest rates.

Single market: A customs union where there are common policies on the freedom of movement of capital, goods, labour and services. A single market is similar to a common market but has more emphasis on removing trade barriers such as technical standards and taxes — it is more 'harmonised'. The EU was a common market at first, and with the Maastricht Treaty in 1992 it became a single market.

Snake in the tunnel: A mechanism to manage currency fluctuations against the US dollar, put in place by the European Community in 1972. 'Snake' refers to the currencies while 'tunnel' refers to the US dollar.

Treaty of Rome (Treaty establishing the European Economic Community): Signed in 1957 in Rome, this Treaty established the European Economic Community, the forerunner of the European Community. It was renamed 'Treaty establishing the European Community' (EC Treaty) by the Maastricht Treaty.





OTHER AVAILABLE PUBLICATIONS

This poster and other publications on the euro and EMU can be downloaded free of charge from http://ec.europa.eu/economy_finance/publications/general/general_en.htm

Printed copies can also be ordered.



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A great deal of additional information on the European Union is available on the Internet.

It can be accessed through the Europa server (<http://europa.eu>).

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ONE CURRENCY FOR ONE EUROPE

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<http://epp.eurostat.ec.europa.eu>

The European Central Bank

<http://www.ecb.eu/>

The European Commission

<http://ec.europa.eu/>

The euro

<http://ec.europa.eu/euro>



ONE CURRENCY FOR ONE EUROPE

The road to the euro

History was made on 1 January 1999 when 11 European Union countries created a monetary union with a single currency, the euro.

Euro banknotes and coins entered circulation on 1 January 2002. But the history of Europe's common currency has been a long time in the making and can be charted back to the origins of the European Union itself. Fifty years after the Treaty of Rome laid the foundations of today's EU, the euro is the biggest and most visible success story in the process of European integration.

The historic adventure of the euro is described in this booklet and the accompanying poster, available from the European Commission at http://ec.europa.eu/economy_finance/publications/general/general_en.htm

