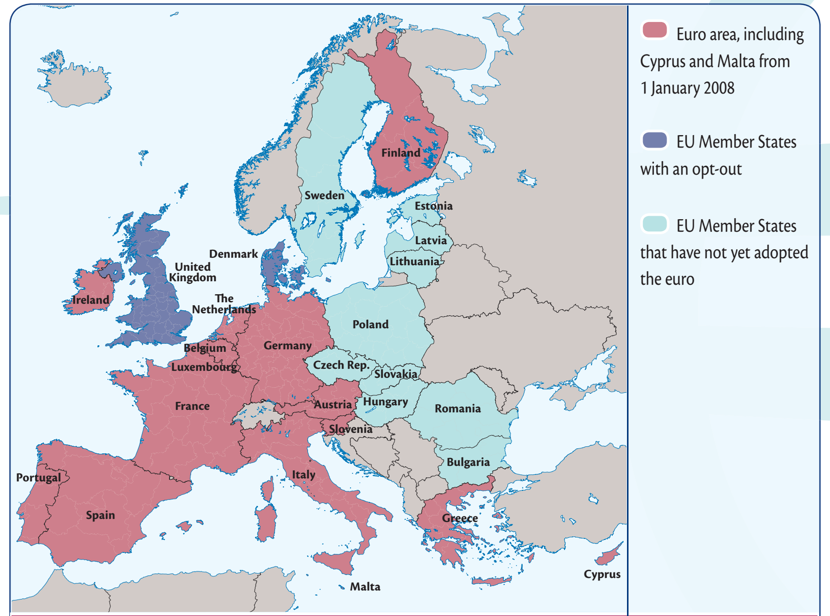
What benefits has the euro brought?

The purpose of Economic and Monetary Union and the euro is to allow the European economy to function better, bringing more jobs and greater prosperity for Europeans. It has also created the world's second largest economy. Its benefits include:

- A stable currency
- Low inflation and low interest rates
- Price transparency
- Elimination of currency exchange costs
- More integrated financial markets
- A better performing economy
- Sounder public finances
- A stronger voice for the EU in the global economy
- Greater ease of international trade
- A tangible sign of a European identity

The euro area: facts and figures



Key indicators (2006)	Euro area	EU-27	US	Japan
Population (millions)	317	494	300	128
GDP (in € trillions calculated at purchasing power parity)	8.4	11.9	11.2	3.5
Share of world GDP (% at PPP)	14.6	21.0	19.7	6.3
Exports(*) (goods and services as % of GDP)	21.7	14.3	10.8	16.8
Imports(*) (goods and services as % of GDP)	20.9	15.0	16.6	15.3

(*) *Excluding intra-EU trade.*

Source: European Commission, ECB and IMF, 2007

Further info:

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

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

The European Commission
http://ec.europa.eu

The European Central Bank
http://www.ecb.eu

Economic and Financial Affairs
DIRECTORATE-GENERAL

KC-78-07-277-EN-C

European Commission

How the euro benefits us all

one currency € many opportunities

One currency for one Europe

The euro is the single currency of 15 Member States, which together make up the euro area. Economic and Monetary Union (EMU) is the political and economic framework that supports the euro and complements the EU's single market.

When the EU was founded in 1957, the Member States concentrated on building a 'common market' for trade. However, over time it became clear that closer economic and monetary co-operation was desirable for the internal market to develop and flourish further, and in 1991 the Member States approved the Treaty on European Union (the Maastricht Treaty), deciding that Europe would have a strong and stable single currency for the 21st century.

In May 1998, the decision on which Member States would be the first to participate was taken and the vision became reality in 1999 when the euro was launched. It appeared as banknotes and coins in people's pockets on 1 January 2002.

Bringing Europeans together

The EU does much to promote European integration, yet often this work is hidden in legal texts and agreements. The euro is one of the strongest tangible symbols of the common identity and shared values of Europe, European nations and Europeans themselves.

Consumers benefit because…

There is more competition

As consumers can shop more easily across borders and compare prices, there is more competition between shops and suppliers. Consumers have more choice, some prices are lower, and price rises are kept in check.

Prices are stable

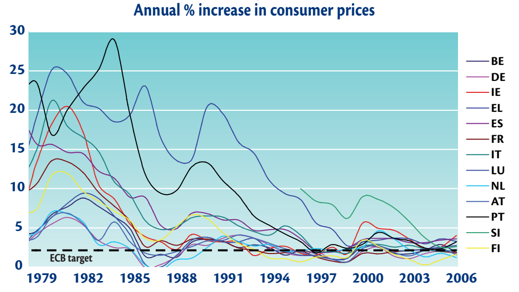
The euro has brought inflation down to a low and stable level. In the 1970s and 1980s many Member States had very high inflation rates, some of 20% and more. Inflation fell as they started preparing for the euro and, since its introduction, has remained around 2% in the euro area. Low and stable inflation benefits everyone.

Borrowing is easier and cheaper

Because the European Central Bank acts to keep inflation low, interest rates are lower. This means people can borrow more easily and cheaply, for example to buy a house or to pay for holidays.

Inflation convergence: euro area

Annual % increase in consumer prices



€ fact: Mortgage rates have fallen from around 8%-14% in the early 1980s to 5% now, saving a borrower with a €100 000 outstanding loan between €170 and €750 euros a month on interest payments.

Travelling is cheaper and easier

In the 1990s, someone travelling through all the EU countries and exchanging money at every border would lose half their money in exchange costs, without making a single purchase! These costs – not to mention the hassle – have been completely eliminated, making life easier and cheaper for tourists, holidaymakers, students and workers who travel abroad. And the euro is readily exchanged in many countries outside the euro area as well – up to 20% of euro banknotes are estimated to circulate outside the euro area.

€ myth: the euro caused prices to rise

The lasting price stability created by the framework of EMU shields households and businesses from inflation. It is true that prices of some everyday or locally purchased items, such as a cup of coffee or a haircut, did rise in some countries when euro cash was introduced. But 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). Far from making life more expensive, the euro, by bringing low inflation and increased competition, does exactly the opposite.

Business benefits because…

Low interest rates mean more investment

Low inflation keeps interest rates low. This means businesses can borrow more cheaply to invest – for example, in new machinery and more research. This leads to more new products and services and higher productivity, which result in growth and more and better jobs.

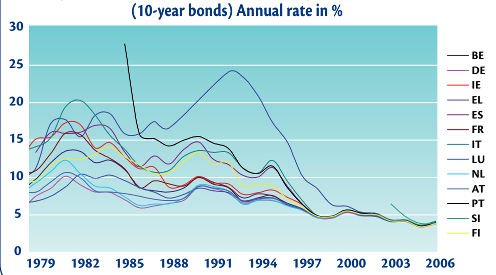
€ fact: Since the euro was introduced in 1999 more than 10 million new jobs have been created in the euro area, compared with only 1.5 million in the previous seven years.

Economic stability encourages long-term planning

Before EMU, volatile interest rates meant unpredictable costs. This made it risky for companies to invest for the long term as it was hard for them to know whether their investment would generate a profit. Today, economic stability under EMU reduces uncertainty and encourages long-term business investment.

Long-term interest rate convergence: euro area

(10-year bonds) Annual rate in %



Lower risks encourage cross-border trade

In the past, trade across EU borders involved many currencies with fluctuating exchange rates. To offset the risk of trading in these conditions, companies would sell at a higher price abroad, discouraging trade. This risk has now gone.

€ fact: Trade within the euro area is estimated to have increased between 4% and 10% since the introduction of the single currency, and goods trade with the outside world has also increased, by about 3%.

Removing exchange rate costs stimulates trade and investment

Before the euro, the cost of exchanging currencies was high, estimated at €20-25 billion annually in the EU. These costs have disappeared within the euro area, where all payments and invoices are now in euro. And what is more, the euro is readily accepted outside the euro area.

Euro-area Member States benefit because…

Governments save money

Low and stable inflation means that government borrowing is cheaper than in the past. The lower interest payments on national debt release money for governments to spend on public services or to cut taxes.

Low inflation benefits social cohesion

The high and volatile inflation rates of the past increased the gap between rich and poor groups and regions. Now that inflation is stable and low, the less well-off are better protected against the erosion of their wealth and purchasing power.

EMU promotes sound and sustainable public finances

Before a country adopts the euro it must prove its economic health by meeting the "Maastricht criteria" (government debt and deficit within specified limits, exchange rate stability, and inflation and interest rates within certain limits) and, once it is in the euro area, it must continue to adhere to the rules on debt and deficit levels. Sound public finances help ensure that both today's and tomorrow's citizens are provided for fairly – for example, through adequate health care provision and pensions.

There is more resistance to external shocks

The size and strength of the euro-area economy make it more resilient to economic shocks than in the past, when unexpected energy price rises or turbulence on global currency markets disrupted national economies.

€ myth: The euro means an unwelcome loss of national sovereignty

It is true that some sovereignty is voluntarily pooled when a country adopts the euro, as governments must coordinate their economic policies and control their spending. However, in today's globalised world, national sovereignty is often more illusion than reality, particularly in the monetary sphere, where only a few dominant currencies really matter. By coordinating their policies, governments can actually gain influence and power in the economic sphere. Economically, the euro area is greater than the sum of its parts.

The European economy benefits because…

Financial integration increases

The single currency makes it much easier for investment capital to move around the euro area to where it can be used most efficiently. And the size of the euro-area financial market makes more capital available for investment and allows investors to spread risks more widely. And for citizens, the cost of sending money to another euro area country has been slashed – by as much as 90%.

€ fact: 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.

The euro area has a greater international presence

The big players in the global economy meet in international groupings, such as the IMF and the G8, to promote stability in global markets. The euro is now the second most important world currency after the US dollar, and in some respects, for example in bond markets, has even overtaken it. This gives the European Union a stronger voice in the world.

€ fact: In December 2006, the value of euro banknotes and coins in circulation overtook the value of US dollar cash in circulation.

International trade is supported

The euro is 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 – reducing the risk of losses caused by global currency fluctuations, and making trade easier for our partners, who can deal in one currency throughout the euro area.