

## Benefits of the euro

The single currency was created in 1999 when the exchange rates of the currencies of the participating countries were irrevocably locked to the euro. The euro banknotes and coins were introduced in 2002 in 12 countries. The euro has brought economic benefits to the euro-area countries. These include greater macroeconomic stability and resilience as well as more efficient functioning of the single market.

The Economic and Monetary Union (EMU) has promoted:

- **Price stability.** Inflation has come down in the euro area from around 4 percent in the early 1990s (and much higher rates in some countries) to just above 2 percent in recent years.
- **Exchange-rate stability.** The euro has eliminated the damaging effects of intra-European exchange-rate tensions, which accompanied external shocks in the past and were often costly in terms of growth and employment. From a broader perspective, the elimination of exchange rate risks also enhances the prospects for investment and trade, and helps countries to fully exploit the advantages of integrated capital markets.
- **Sound public finances.** A number of countries achieved an impressive consolidation of public finances prior to the launch of the euro. On average, deficit-to-GDP ratios fell by more than 5 percentage points during the 1993-1998 period. Consolidation was fostered, in particular, by lower interest rates and by the stability-oriented EMU fiscal framework.
- **Low interest rates.** A number of EMU-related factors (low inflation, credible monetary policy, elimination of exchange rate risk premiums) have contributed to the fall in interest rates in the run-up to the euro. International developments have also played a role. Short-term nominal interest rates were, on average, above 9 percent in the first half of 1990s; they were down to just above 3 percent in early 2007 in the euro area.
- **Investment and trade.** The euro has significantly contributed to the integration of the economies across the monetary union, where foreign trade has expanded more rapidly than trade between euro area Member States and other EU countries. Empirical evidence also suggests that the euro has raised the attractiveness of the euro-area as a destination for foreign investment.
- **Reaping full benefits of the EU's internal market.** A single currency is making the single market more efficient, in particular, through the elimination of exchange rate fluctuations and of transaction costs (related to the exchange of currencies), greater price transparency, increased competition and large and liquid financial markets.

