



DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

Taking stock four years after the Five Presidents' Report

#FutureofEurope #Deepening EMU

BENEFITS OF THE EURO: FACTS AND FIGURES

On 1 January 1999, 11 EU countries fixed their exchange rates, adopted a shared monetary policy under the European Central Bank and launched a common currency on world financial markets: the euro. Three years later, euro notes and coins entered into circulation.

Today, the euro is the currency of 19 EU countries, of more than 340 million EU citizens and used by another 175 million worldwide. It is the second most important currency in the world.

Euro notes and coins are tangible, everyday reminders of the freedom, convenience and opportunities that the European Union makes possible. Here are some concrete examples of the benefits of the euro.

THE EURO'S IMPACT ON LIVING STANDARDS

- ▶ Being together has made us wealthier. In fact, we could be a fifth worse off if no integration at all had taken place within Europe after World War II (in terms of GDP per person living in the EU, based on [academic research](#). This includes the Single Market, customs union, the euro, etc.)
- ▶ Since the euro was introduced in 1999, the average income in the euro area (EA19) has risen from €20,900 to €33,900 (2018), an increase of 62%. Over the same time, the percentage of people use in employment has risen from 63.6% to 72.3% in the euro area. Employment is now at a record high, with 160 million people working across the euro area. Unemployment is at its lowest level since the start of the century.

THE EURO AS A GLOBAL CURRENCY

- ▶ The euro is a safe store of value held by central banks across the world. It accounts for 20% of international foreign reserves, making it the world's second reserve currency after the US dollar, which has a share of more than 60%. No other currency exceeds 5%.
- ▶ In 2017, the euro amounted to 36% of global payments. The US dollar, by comparison, accounts for about 40% of total payments.
- ▶ The EU accounts for around 17% of global gross domestic product and the euro area's share is around 12%. The US share is 15%.

PUBLIC PERCEPTION

- ▶ **Support for the euro** is higher than ever. 75% of people across the euro area say that the euro is good for the EU. 64% also think the euro is good for their own country. Both levels are the highest since surveys began in 2002.

THE BENEFITS OF THE EURO FOR BUSINESSES

- ▶ The euro has boosted trade. Trade within the single market has risen from 13% of EU GDP in 1992 to 20% today. Intra-euro area trade has risen both in absolute terms and as a share of total trade with advanced economies.
- ▶ The euro has reduced paperwork and eliminated currency risk for intra-EU transactions. The stability of the euro and its global role make it attractive for businesses around the world trading with Europe to accept prices quoted in euro and to use the euro when carrying out their transactions. This protects European businesses from the costs of currency movements and the cost of converting euro into other currencies.
- ▶ Companies can also use the euro to export outside the euro area. In practice, companies invoice about two thirds of their export and half of their import business in euro. Much more worldwide business can be done in euro today than was ever possible with the franc, lira or deutschmark – and there is room to build on this.
- ▶ The euro has improved the financing conditions for firms by giving access to deeper and larger bond and equity markets in Europe. Cheaper interest rates and a predictable environment have also helped.

THE BENEFITS OF THE EURO FOR CONSUMERS

- ▶ The euro means consumers can easily compare prices. This leads to more transparent and more competitive markets.
- ▶ The euro has brought increased price stability. Since the introduction of the euro, the monthly inflation rate has averaged 1.7%. By contrast, inflation in the 11 EU Member States that in 1999 formed the euro area averaged about 3% in the decade prior to the introduction of the euro, and 4.5% the two decades before that. This has been particularly important for southern Member States: average annual inflation between 1980 and 1999 was 6.7% in Spain, 11% in Portugal and 14% in Greece compared to 2.1%, 2%, and 2%, respectively, between 2000 and 2018. Lower borrowing costs and greater predictability have made it easier and cheaper to borrow money. That means European citizens can get cheaper mortgages, and European businesses can finance investment at lower cost.
- ▶ The euro has brought a decrease in price volatility: fewer exchange rate movements mean significantly fewer price swings.
- ▶ Even if prices in Member States that move to the euro experience a one-off increase of 0.1 to 0.3 percentage points in the first months after the switch, this cost is far outweighed in the medium and long run by the benefits of the euro as a price stabilising factor.
- ▶ Just like for businesses, transaction costs for citizens have diminished. Citizens are no longer charged to convert their currency when crossing borders in the euro area. They also do not pay more for transferring to or withdrawing money in another euro area Member State.
- ▶ The difference in prices for similar products between countries is 30 to 50% less when they are part of a currency union rather than simply sharing a fixed exchange rate.
- ▶ Tourism within the euro area grew by about 44.5% for the 11 Member States that joined the euro area in 1999. Tourism to those 11 countries from outside the euro area increased by about 19%.

THE BENEFITS OF THE EURO FOR GOVERNMENTS

- ▶ Euro area governments have saved €70 billion in interest payments annually on average since the introduction of the euro, according to Commission calculations.
- ▶ The argument that devaluations – which would be possible outside a currency union – could solve structural economic problems does not hold true. For example, between 1979 and 1992, the Italian lira was devalued seven times against the German currency, losing around half of its value. Yet, over that period, productivity growth in Italy was lower than in the other countries that later formed the euro area together, GDP growth rate was roughly the same, and unemployment went up by 1.3 percentage points. At the same time, inflation was 223%.

THE BENEFITS OF THE EURO FOR PAYMENTS

- ▶ Today, a transaction in euro across the euro area costs exactly the same as an equivalent transaction within one Member State. Depending on the bank, it may be free of charge or cost only a few cents. Prior to the 2001 regulation on cross-border euro payments, charges for cross-border euro payments were often excessive. A €100 transfer cost the consumer €24 on average. Now, such cross-border payments cost the same as within a Member State. Some 360 million EU citizens (euro area and Sweden) and 16.3 million businesses enjoy this benefit, with 2.8 billion transactions a year.
- ▶ By contrast, it is still the case today that a transaction in euro from a non-euro area Member State (e.g. Bulgaria) to a euro-area Member State (e.g. Finland) can cost up to €24, even if the amount transferred is only €10. We are using the clout of the euro to change that, too: with the new Cross-border Payments Regulation, as of 15 December 2019, the price of such an intra-EU transaction in euro is expected to decrease substantially to zero or close to zero. For instance, a transaction from Bulgaria to Finland would cost the same as a domestic transaction within Bulgaria. This will generate around €1 billion in annual savings for an additional 150 million consumers and 6 million businesses in Member States outside the euro area, covering an additional 1.8 billion transactions a year.
- ▶ Thanks to the Single Euro Payments Area, just one bank account is enough to make cross-border payments and transactions in euros, whereas consumers and firms in the past needed to set up accounts in every country where they did business. This means consumers and businesses can manage their accounts more efficiently and enjoy faster cash flows and lower costs.