THE LAUNCH OF THE EURO
THE LAST STAGE OF ECONOMIC AND MONETARY UNION*

INTRODUCTION

The EU will soon have a powerful instrument worthy of its international stature, a single currency, on 1 January 1999. The European Council agreed in May 1998 to include eleven member states as participants in the new common currency, the euro. The countries are France, Germany, Austria, The Netherlands, Italy, Spain, Belgium, Luxembourg, Portugal, Finland and Ireland. The countries broadly satisfied the convergence criteria set at the Maastricht Summit in 1992.

Four member states are not in the group, namely, Greece, Sweden, the United Kingdom and Denmark. Greece will continue working towards the required level of economic convergence while the others have opted out of the system for the time being.

The process of European integration has taken a new step forward by entering the third and last stage of Economic and Monetary Union ("EMU"). This decisive step will give the Single Market a boost, favour investment and strength the competitiveness of businesses. It will also benefit consumers, especially savers, and facilitate and simplify the lives of ordinary people in their work and travel in the European Union ("EU").

EMU – A LONG HISTORY

The European Council of the Heads of State and Government at The Hague in 1969 made EMU an objective of the European Community, to harmonise the economic and monetary policy of the Community's member states for the purpose of introducing a single currency. In 1971, that objective became a Community Program with the aim of creating EMU by 1981. This project failed, largely because of an unfavourable international economic climate.

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* Source: European Commission Delegation (Canberra), EU Background Note, September 1998.

In response to the world crisis, the Community attempted a common response to maintain a minimum of stability between the exchange rates of the currencies of the member states. The inability to stabilise floating exchange rates forced the states to look for a more efficient instrument. In 1979, the European Monetary System was born, with an instrument of reference, the European Currency Unit ("ECU").

The project to re-launch EMU was begun in 1988 when a group of experts under the authority of Jacques Delors, the then President of the European Commission, was set up. The group's task was to examine the methods and outline the stages for completing economic and monetary union. The Delors Report was approved by the Madrid Council in 1989, which decided to embark on the first phase of EMU in 1990 and to prepare an inter-governmental conference on the topic. The conference led to the decisions of the Maastricht Summit which approved the Treaty on European Union, also known as the Maastricht Treaty. The Treaty set out the economic convergence criteria to be met for EMU participation and the objective of a single currency by 1999 a the latest.

The convergence criteria were as follows:

- inflation must be held within 1.5% of the three member states with the lowest rate of inflation in the previous year;
- a budget deficit of no more than 3% of the gross national product ("GDP") and government debt below 60% of GDP; and
- no currency devaluation for at least a two year period and average nominal long term interest rates to be within 2% of the three member states with the lowest rates.

The economic performance of member states wishing to participate in EMU was monitored from 1993 to 1997 for their ability to comply with the criteria.

THE THREE STATES OF EMU

The EMU Treaty was designed to be carried out in three phases, each with its own importance, specific nature and duration.

First phase (1 July 1990 – December 1993)

- removal of the obstacles to the movement of capital
- strengthening of co-ordination of national economic policies
- intensifying co-operation between central banks.

Second phase (January 1994 – December 1998)

- creation of the European Monetary Institute in Frankfurt
- strengthening of economic policy co-ordination procedures
- introduction of economic convergence policies (Maastricht Treaty)
- adoption of the name "euro" for the single currency
- designation of member states that meet the convergence criteria
- creation of a European Central Bank ("ECB")
- fixing of exchange rates for the participating states.

Third phase (January 1999 – July 2002)

- launching of the process for putting the euro into circulation (as bank accounts, and electronic money only)
- introduction of euro notes and coins for public use (as of 1 January 2002)
- ending of the transitional phase; the euro to become the single currency on 1 July 2002.

THE ADVANTAGES OF A SINGLE CURRENCY

Unlike the ECU, which is simply a system of reference, the euro is real currency. From 1 January 1999, it will be possible to open bank accounts in euro and to make electronic transfers and payments. In July 2002, euro notes and coins will replace, once and for all, the national currencies of the member states participating in EMU.

This is the first time in history that sovereign states have agreed to give up their national currency, to be replaced not only by a common currency but also by a Central Bank and a common monetary policy. The adoption of the euro will have beneficial results for the economies of all member states, bringing in particular the following features:

- Stability – a situation of monetary crisis, like the one Europe experienced in early 1990 and led to the re-alignment of parities of certain currencies within the European Monetary System and the withdrawal of others from the system, could not happen again. Because of its size, the European Central Bank can more easily absorb the shocks of any future disruptions.

- Low interest rates – this would result from market confidence fostered by a strong independent European Central Bank. Low rates, particularly low long term rates, will promote investment, encourage economic growth and stimulate job creation.

- A zero exchange rate – fixed parity will mean greater transparency of prices for goods and services leading to stronger competition, lower consumer prices and new business and co-operation opportunities for European businesses.

THE EURO – A BALANCING FACTOR THE WORLD MONETARY SYSTEM

Its market size and its position as the world's main economic power will make the euro, in the medium term, a world currency of trade, investment and reserve alongside the US dollar.

Countries which have close economic, commercial and financial ties with the European Union will be directly affected by the launch of the euro. These countries are those connected with the EU through pre-accession agreements (Cyprus, Central and Eastern Europe), association and customs union agreements (Malta, Turkey), partnership agreements (Mediterranean countries) or through specific ties such as the Lomé Convention with the countries of Africa, the Caribbean and the Pacific. By joining the euro area in their commercial dealings and financial transactions, these countries will no longer have to bear exchange risks and the heavy costs of covering those risks.

The eleven member states to constitute the euro area on 1 January will represent (1) 290 million inhabitants;[1] (2) 19.4% of world GDP;[2] and (3) 18.6% of world trade.[3]

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[1] Compare 268 million for the United States and 126 million for Japan.

[2] Compare 19.6% for the United States and 7.7% for Japan.

[3] Compare 16.6% for the United States and 8.2% for Japan.

The euro will play a part in establishing more balanced global monetary relations. The EU will be able, because of the euro, to better assert its existence, identity and utility at international level, and play a greater role in keeping with its true size.

THE BENEFITS OF THE EURO TO AUSTRALIA AND NEW ZEALAND

The euro will benefit all countries which trade with the EU. Companies world-wide stand to gain from improved growth prospects in Europe, aided by a stable currency, sound financial systems and an integrated Single Market.

The euro will have two main effects for Australian and New Zealand businesses. Increased strength and stability in Europe will make it a better trading partner, providing new opportunities for businesses wishing to increase their trade exposure in Europe. Moreover, subsidiaries of Australian and New Zealand companies operating in Europe will gain the same benefits from the single currency as domestic European companies.

GLOSSARY

European Council – The Heads of State and Governments for the 15 EU member states meet at least once every six months (June and December) to set the broad economic policy guidelines for member states' economic performance in the lead-up to the single currency. The President of the Council is one of the Heads of State of the member states. The presidency of the European Council rotates every six months.

European Monetary System – Launched in May 1979, the purpose of the EMS was to reduce the monetary instability in the EU. Parities could only be changed by mutual agreement of the participating member states and the European Commission. The British pound sterling remained outside the EMS.

European Commission – The Executive arm of the EU with the right to propose legislation. The commission is responsible for monitoring the economic policies of member states seeking participation in EMU.

European Central Bank – Based in Frankfurt, the ECB will be responsible for monetary policy throughout the euro area and will ensure price stability. The directors of the ECB will include the governors of the central banks of the eleven euro member states. The ECB came into being in June 1998. Its forerunner was the European Monetary Institute.

Treaty on European Union – Also known as the Maastricht Treaty, it was signed in February 1992. The Treaty established the conditions and the timetable for the introduction of the single European currency.