WHEN WILL THE 'EURO' BE IN OUR POCKETS?

Second edition

Europe ...
questions and answers

Europe
on the move

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EUROPE ... QUESTIONS AND ANSWERS

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CONTENTS

The terms ***'European Community'*** *and* ***'European Union'*** *are used in this text to speak of that political entity which was born as the European Economic Community (or Common Market) through the Treaty of Rome in 1957 and subsequently evolved first into the European Community and finally to the European Union through the Maastricht Treaty of 1991, or the 'Treaty on European Union' as it is formally known. The legal construction of the latter treaty, in so-called 'pillars', stipulates that most policy matters fall legally under the scope of the still existing European Community (e.g. everything relating to the single market and the common agricultural policy), but two important areas, the common foreign and security policy and justice and home affairs form the second and third pillars. They have a different legal framework under the 'roof' of the European Union.*

The EU means many things to many people. For some it has been at the core of efforts to help maintain peace over the past 50 years in a continent which in the past has been riven by rivalry and suspicion. Others, however, talk of its political impotency. Why, they wonder, as a supposed political union, has it not been able to intervene effectively in the former Yugoslavia?

For many the EU is primarily about the single market and the opportunities and benefits this presents to businesses, students, pensioners and holidaymakers.

A number of people feel that it is becoming increasingly difficult to see the wood for the trees. They look back and ask whether the EU's current responsibilities really are fulfilling the visions of its founders, or whether those visions have themselves become lost in the ambiguities of post cold-war Europe? A fair question would be: What exactly is the EU for now?

Likewise, you may want to know how the EU benefits you directly, in practical terms.

The EU's institutions are inundated daily with enquiries by people hoping to get to the root of many such questions. This booklet, in a series of several, seeks to give brief but concise answers to the most frequent of these questions.

Ultimately, the EU is more than just the sum of its parts. Its Member States created it to help solve problems that cannot now be effectively tackled by countries acting alone. The point is that the EU offers opportunities, not restrictions.

When will the 'euro' be in our pockets?

Since when has the European Union decided to introduce a single currency?

The decision to adopt the single currency forms an integral part of the Treaty on European Union signed by the Member States in Maastricht in February 1992. Protocols attached to the Treaty will allow two countries, the United Kingdom and Denmark, to stay out of the single currency when the time comes, should they prefer.

At the European Council meeting in Madrid on 15 and 16 December 1995 the Heads of State or Government of the Fifteen decided to call the single currency the 'euro' and adopted a definitive scenario for introducing it. The changeover to the euro will therefore begin on 1 January 1999 for those countries which meet the necessary conditions laid down in the Maastricht Treaty (see box below).

The necessary economic conditions for taking part in the single currency

If they are to join the euro, the Member States must bring their economies closer together (this is known as achieving 'convergence'). Four convergence criteria have been established for that purpose:

- Member States must avoid excessive government deficits. Their performance is measured against two reference ratios: 3% of GDP for the annual deficit and 60% of GDP for the stock of government debt;
- inflation should not exceed by more than 1.5 percentage points that of the three best performing Member States in terms of price stability in the previous year;
- the country's currency must have remained within the normal fluctuation margins of the European Monetary System (EMS) for at least two years;
- long-term interest rates should not exceed by more than 2 percentage points the average of the three Member States with the lowest inflation rates in the Union.

The Stability and Growth Pact is a set of rules and procedures agreed by Heads of State or Government in Amsterdam (June 1997) designed to ensure that this 'convergence' continues after 1 January 1999.

People will have euros in their pockets by the year 2002.

When will I actually have euro notes and coins in my pocket?

On 1 January 2002 at the latest. This is when notes and coins denominated in euros will begin to circulate alongside notes and coins in national currency. As well as this, by 1 July 2002 at the latest, the national currencies of the participating countries will be completely replaced by the euro. After that date, it will still be possible to exchange national notes and coins free of charge at the national central banks, and savers will not lose out as a result of the changeover. There is no risk, then, of finding yourself one day stuck with notes and coins that you cannot get rid of because they are no longer legal tender.

What will the 'euro' look like? Will it be the same in all Member States?

Yes. Euro notes will be more or less the same in all countries taking part in the single currency; they might have a small space on one side where the issuing country can be identified. The EMI chose the designs in December 1996. Notes will be issued in denominations of 5, 10, 20, 50, 100, 200 and 500 euros. There will be eight different coins, ranging from one cent to two euros. They will have a common face (see illustration) and a national face. Coin and note production will begin in early 1998.

Who will decide on the list of countries taking part, and when?

As agreed at the Madrid European Council in December 1995, it is the Heads of State or Government of the Fifteen who will decide, 'as early as possible in 1998 which Member States fulfil the necessary conditions' for taking part in monetary union on 1 January 1999. The decision will be taken on the basis of economic data for 1997, after examination by the European Commission and the European Monetary Institute.

What does economic and monetary union mean?

Economic and monetary union (EMU) means a single monetary policy within a single economic market, and is therefore the logical complement to the single market. Monetary policy (e.g. interest rate) will be run by a European Central Bank independent of national governments and Community institutions. Economic policy (e.g. taxation and government expenditure decisions) will remain the responsibility of national governments working within the commonly agreed rules of the Stability and Growth Pact. This does not mean that EMU presumes political union; common decisions on overall levels of taxation would not be required, for instance, neither would decisions regarding the balance of taxation, such as between direct and indirect taxation, or between capital and labour. These will continue to be set according to national needs and priorities, in line with the principle of subsidiarity.

What will happen on 1 January 1999?

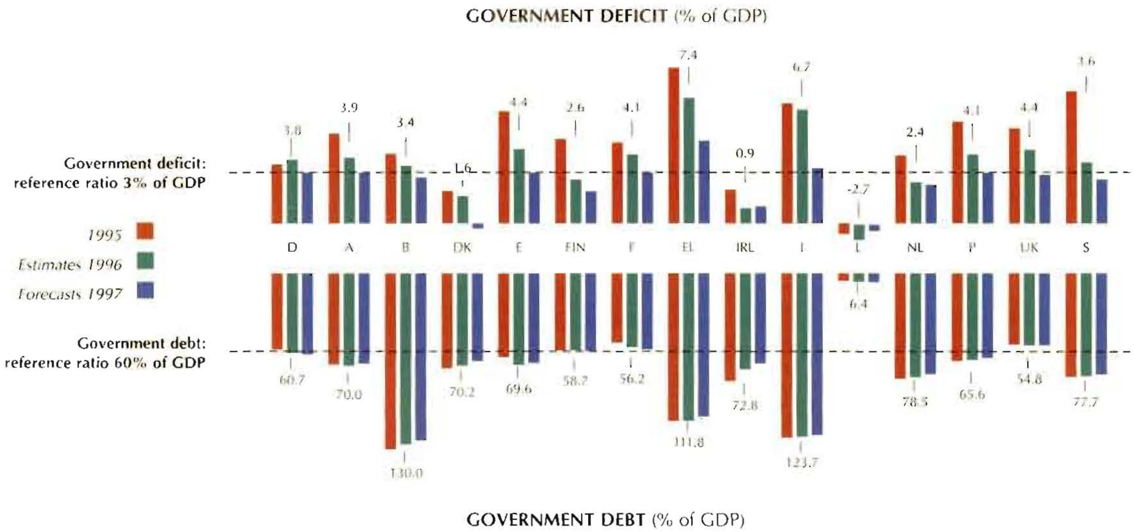
1 January 1999 will mark the beginning of the process of introducing the single currency in those countries which meet the convergence criteria laid down in the Treaty. In practical terms, the following arrangements will come into effect:

- the conversion rates of the participating currencies (both among themselves and against the euro) will be irrevocably fixed;
- a single monetary policy will be framed and implemented by the European System of Central Banks (ESCB), composed of the central banks of the participating countries and the European Central Bank (ECB), to be set up in 1998. The ESCB will conduct its monetary and foreign-exchange operations in euros;
- the participating Member States will denominate their new public debt issues in euros;
- financial markets will follow suit and use the euro, which will thus immediately take its place in the international monetary system.

Are the convergence criteria too strict?

No. The convergence objectives set by the Treaty on European Union are realistic, and this is true even of the one which is most difficult to achieve for most Member States, namely the government deficit criterion. The average deficit has declined substantially in Europe over the last two years, from 6.3% of GDP in 1993 to 4.7% in 1995. The effort that still has to be made between now and the end of 1997 is therefore on a par with what has been achieved over the previous two-year period.

Budgetary convergence on the road to the euro: how much have Member States achieved so far?



Steps leading to the euro

1 July 1990
Stage one of economic and monetary union begins. Capital movements in the EU Member States are fully liberalized (except where temporary derogations have been granted).

1 January 1993
The single market is completed.

1 November 1993
- The composition of the ecu basket is frozen.
- The Treaty on European Union signed in Maastricht enters into force.

15 and16 December 1995
Madrid European Council
- The name 'euro' adopted for the single currency.
- Technical scenario for introduction of the euro and timetable for change-over to the single currency in 1999 finalized (end of the process scheduled for 2002).

16 - 17 June 1997 Amsterdam European Council
- The European Council reaches final agreement on the legal framework for the use of the euro, the Stability and Growth Pact, and on the successor regime of the EMS.
- The design of euro coins is revealed.

1 January 1999
Stage three of EMU begins.
- Council to fix irrevocably the conversion rates of the currencies of participating countries both among themselves and against the euro.
- The euro is to become a currency in its own right and the official ecu basket will cease to exist.
- Council regulation establishing the legal framework for introduction of the euro is to enter into force.

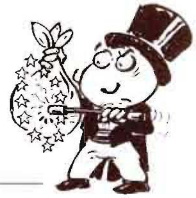
From 1 January 1999
- ESCB to frame and implement single monetary policy in euros and conduct foreign exchange operations in euros.
- Member States to issue new public debt securities in euros.

1 January 1994

• The European Monetary Institute (EMI) is set up in Frankfurt.
• Procedures for coordinating economic policies at European level are strengthened.
• Member States strive to combat 'excessive deficits' and to achieve economic convergence.

31 May 1995

The Commission adopts Green Paper on the single currency (reference scenario for the transition to the single currency).



As early as possible in 1998

The Heads of State or Government to decide which Member States will be the first to take part in the single currency, on the basis of the convergence criteria and in the light of economic data for 1997.

As soon as possible after that decision

• Member States to appoint Executive Board of the ECB.
• ECB and Council to set the date for introduction of Euro notes and coins.

Before 1 January 1999

Final preparation of the ECB and ESCB:
• Council to adopt legislation on the key for capital subscription, collection of statistical information, minimum reserves, consultation of the ECB, and fines and penalties which can be imposed on undertakings.
• ECB and ESCB to get ready for becoming operational: setting up the ECB, adopting the regulatory framework, testing the monetary policy framework, etc.

From 1 January 1999 to 1 January 2002 at the latest

• ESCB to exchange at par value currencies with irrevocably fixed conversion rates.
• ESCB and public authorities in Member States to monitor changeover developments in the banking and finance sectors and assist the whole of the economy to prepare for the changeover.

1 January 2002 at the latest

• ESCB gradually to put Euro notes into circulation and withdraw national banknotes.
• Member States gradually to put Euro coins into circulation and withdraw national coins.

... The process comes to an end ...

1 July 2002 at the latest

The changeover to the Euro is complete in all the participating Member States.

EKA

In what areas do the countries wishing to join the euro need to step up their efforts in order to fulfil the criteria?

Member States have made real progress towards economic convergence, but government deficits are still running too high. The situation as regards the other convergence criteria has improved considerably in recent years, especially for inflation, which has hit record lows (2.7% for the Union as a whole in 1996), and for long-term interest rates.

Is deficit reduction compatible with the fight against unemployment?

Deficit reduction is the only possible option if we are to lay the foundations for healthy economic growth, which is the necessary precondition for creating jobs and fighting unemployment in Europe.

Economists agree that, given the globalization of the economy, allowing government deficits to grow is no longer a valid way of boosting economic activity. On the contrary, analysis of the economic performance of European countries over the last 25 years shows that unemployment falls — sometimes quite sharply — in countries which cut back their government deficits, as was the case, for example, in Denmark from 1982 to 1986 or as Ireland has done over the last decade.

Furthermore government deficits lead to high levels of public debt and a heavy burden of interest payments.

Conversely, unemployment worsens when countries go more deeply into the red. The 15 Member States of the Union have clearly understood this lesson: the European employment strategy agreed at the Madrid European Council ranks the reduction of excessive deficits as a top priority.

Will full economic and monetary union spell the end of my country's right to determine its own economic policies?

Yes and no. Yes, because national governments have agreed that their economic policies are of common concern and have seen fit to share some control of their own economies in order that other benefits may be accrued. This is the point. The benefits of full EMU to the consumer and to businesses are laid out below; the benefits to national governments and their central banks or current equivalents are equally wide-ranging.

The Heads of State or Government agreed, in June 1997 at the Amsterdam European Council, how their economies should be run when they adopted the Stability and Growth Pact. This consists of two Regulations, one strengthening existing procedures for mutual surveillance (peer review) of budgets and economic policies, and one on strengthening the procedure to dissuade countries from running excessive government deficits. The Pact also consists of a Resolution laying down: objectives, such as that governments should aim for sound budgeting positions close to balance; principles, such as Member States remain responsible for their own nation budgets; and giving firm political guidance to the parties who will implement the Pact.

A single currency will be able to withstand, far more confidently, the kind of pressures now brought to bear on separate national currencies by speculators. Sudden devaluations would become a thing of the past. By resisting membership of the single currency, a national government would be effectively denying itself the right to have a say in how the European Central Bank is run, and thus, in some ways, in how the Community itself progresses.

What are the advantages of a single currency?

The advantages are numerous. For one, a single currency means that travellers across the Community no longer have to change money, while losing money on every transaction, as is now the case. Exchange margins paid to banks will simply disappear. Small businesses in particular will benefit as payments and transfers between Member States end up being quicker and more reliable, and cheaper.

For business and consumers, a single currency will also take away the uncertainty about the price for which goods are sold. As has been seen sudden exchange rate movements can wipe out profit margins in a matter of hours.

All this will make it easier for businesses, big and small, to operate throughout the euro zone and not just in their home country.

Furthermore, if goods and services are priced in one and the same currency the competitive effect of the single market will be strengthened considerably, much to the Community's benefit as a whole. In this way, the single currency will also help stimulate growth and employment.

How will the euro coexist with the currencies of Member States that do not initially adopt the single currency?

The aim is that those countries which do not join the euro-area on 1 January 1999 ('pre-ins') will be encouraged to do so when they are ready.

The Amsterdam European Council agreed the details of a new Exchange Rate Mechanism to run from 1 January 1999. The purpose is to ensure that Member States outside the euro-area, orient their policies to stability, and foster convergence. This will help them in their efforts to adopt the euro. At the same time the mechanism will help protect both them and members of the euro-area from unwarranted pressures in the foreign exchange market. The mechanism will create stable exchange rates between the 'pre-ins' and the euro.

- Participation in the new mechanism will be voluntary.
- The mechanism will be managed in such a way as not to exchange the ECB's primary objective of price stability.

In 2002 the euro will replace national notes and coins in those Member States which, in 1999, fulfil the economic conditions for taking part in the single currency.

- A central rate against the euro will be defined for each participating currency. These will be one wide fluctuation band of plus or minus 15 per cent around the central rates, and intervention at the margins will in principle be automatic and unlimited.

How will the public be informed about the euro?

We are all consumers, tax payers, borrowers, savers and investors at some time in our lives and the euro will have practical implications for all these activities. Recent studies have indicated that 90% of EU citizens recognize this and want balanced and objective information on the euro. As well as addressing the practical implications of the euro's introduction, the information needs to allay people's fears and highlight the many real benefits that make the switch worthwhile.

Who is going to communicate all this information to those who need it? Banks, retailers, accountants, solicitors and consumer organizations are all in the front-line when it comes to giving clear, practical explanations. But the size of the communication challenge presented by the euro also requires the active involvement of national, regional and local governments and administrations. Indeed many Member States have adopted joint communication plans with the Commission.

Partnership is the key principle underscoring these plans. National governments can offer a better insight into their electorates' cultures and sensibilities while the Commission has an overview of what is happening across the EU in terms of euro communication activities. This enables it to identify successes and encourage their repetition in other Member States. In addition the Commission is producing reference material, both written and audio-visual, which the front-liners can consult and then tailor to meet the information needs of the publics closest to them.

Identifying these needs is all important and those who are directly concerned by the changes the euro will bring must be given every opportunity to express their opinions. A practical example of this consultation was the Round Table organized by the Commission in May 1997. Representatives of consumer groups, public authorities, retailers, industry and banks met to share their concerns and to seek practical solutions to problems such as how best to enable people to get used to prices in euros.

Who's who of the euro

1999: the single currency is launched.

Who will be responsible for the economic and monetary policy of the Union? This is how responsibilities will be shared:

Economic policy: the Council at the forefront

The economic policies of the 15 Member States will be coordinated, as they are today, by the EU Council of Economic and Finance Ministers: using a process of 'peer review', the Council will continue each year to draw up and adopt broad economic policy guidelines (common objectives for inflation, public finances and exchange-rate stability);

Monetary policy: key role of the ECB

Monetary policy will be decided by the European Central Bank (ECB), whose primary objective will be to maintain price stability. The ECB will become operational on 1 January 1999 when the exchange rates of the currencies of the participating countries are irrevocably fixed. It will replace the Frankfurt-based European Monetary Institute (EMI), set up in 1994 to prepare the way for the single currency.

The Governing Council comprises the members of the Executive Board and the Governors of National Central Banks. The Executive Board comprises the President, the Vice-President and four other members appointed for a non renewable term of up to eight years.

The Governing Council formulates the monetary policy in the Community including decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the European System of Central Banks, and establishes the necessary guidelines for their implementation.

The Executive Board implements monetary policy in accordance with the guidelines and decisions laid down by the Governing Council. In doing so the Executive Board gives the necessary instructions to National Central Banks. The Executive Board will be responsible for the current business of the ECB; additional responsibilities may be delegated to it, where the Governing Council so decides.

Participation in the above decision-making bodies is reserved to the Member States that have adopted the euro.

The national central banks in the euro area will not, however, disappear: they will together form, along with the European Central Bank, the European System of Central Banks (ESCB), which will also become operational on 1 January 1999. The tasks of the ESCB will be threefold:

(i) to define and implement the single monetary policy of the Union;

(ii) to conduct foreign exchange operations in accordance with instructions given by the Council of Ministers;

(iii) to hold and manage the official foreign reserves of the Member States belonging to the euro area.

National central banks will furthermore form an integral part of the European Central Bank: their governors will sit on the Governing Council of the ECB. Although the national central banks will act in accordance with the instructions and recommendations of the ECB, they will retain powers and continue to be active in their own areas: distribution of credit, collection of resources, management of payment systems, etc.

Exchange-rate policy: decisions to be taken by the Council

It is the EU Council of Ministers which will be responsible for the euro area's general exchange-rate policy. However, interventions on the foreign exchange market and day-to-day management will be carried out by the European Central Bank, which will ensure this is compatible with its primary objective of price stability.

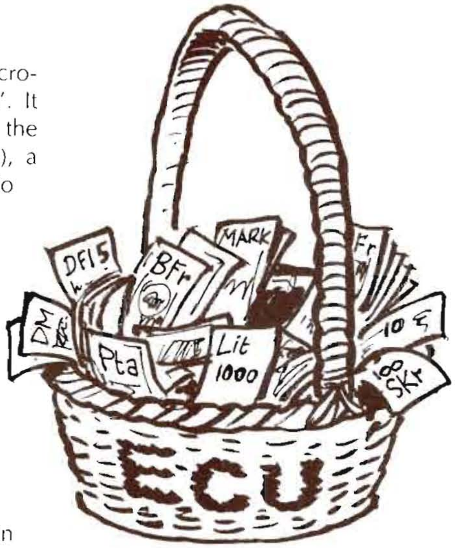
What role does the ecu play at present?

The ecu already exists, and is an acronym for 'European currency unit'. It is currently the key element in the European Monetary System (EMS), a mechanism set up in 1979 to ensure that Europe would be as free as possible from sudden currency fluctuations while at the same time maintaining economic convergence.

The ecu comprises a 'basket' of the currencies of the Member States, each currency accounting for a proportion fixed to the economic strength of the country in question. Therefore its own value varies in each currency as they chop and change in relation to it, and because of this it is used as an indicator to determine when one currency moves sharply up or down in relation to the others. In short, the ecu acts as a kind of prelude to the introduction of the 'euro' — the name chosen by Heads of Government for the single currency.

The Community's budget and that of many multinational firms is calculated in ecus. For banking purposes it already operates as a fully fledged currency. Many smaller businesses, as well as private individuals, use it for their savings and overdrafts. The aim is that people will be able to use the ecu as an alternative to national currencies before the introduction of the 'euro'.

The euro will replace the ecu on 1 January 1999 on a one for one basis, and the ecu will cease to exist. All existing contracts expressed in ecu will then be settled in euro.



The composition of the ecu basket was frozen on 1 November 1993, when the Treaty on European Union came into force, and the monetary amounts of each currency are now irrevocably fixed until the beginning of Stage 3 of economic and monetary union. Of course, this does not mean that the exchange rate of each currency cannot vary against its competitors and against the ecu itself on a daily basis.

European Commission

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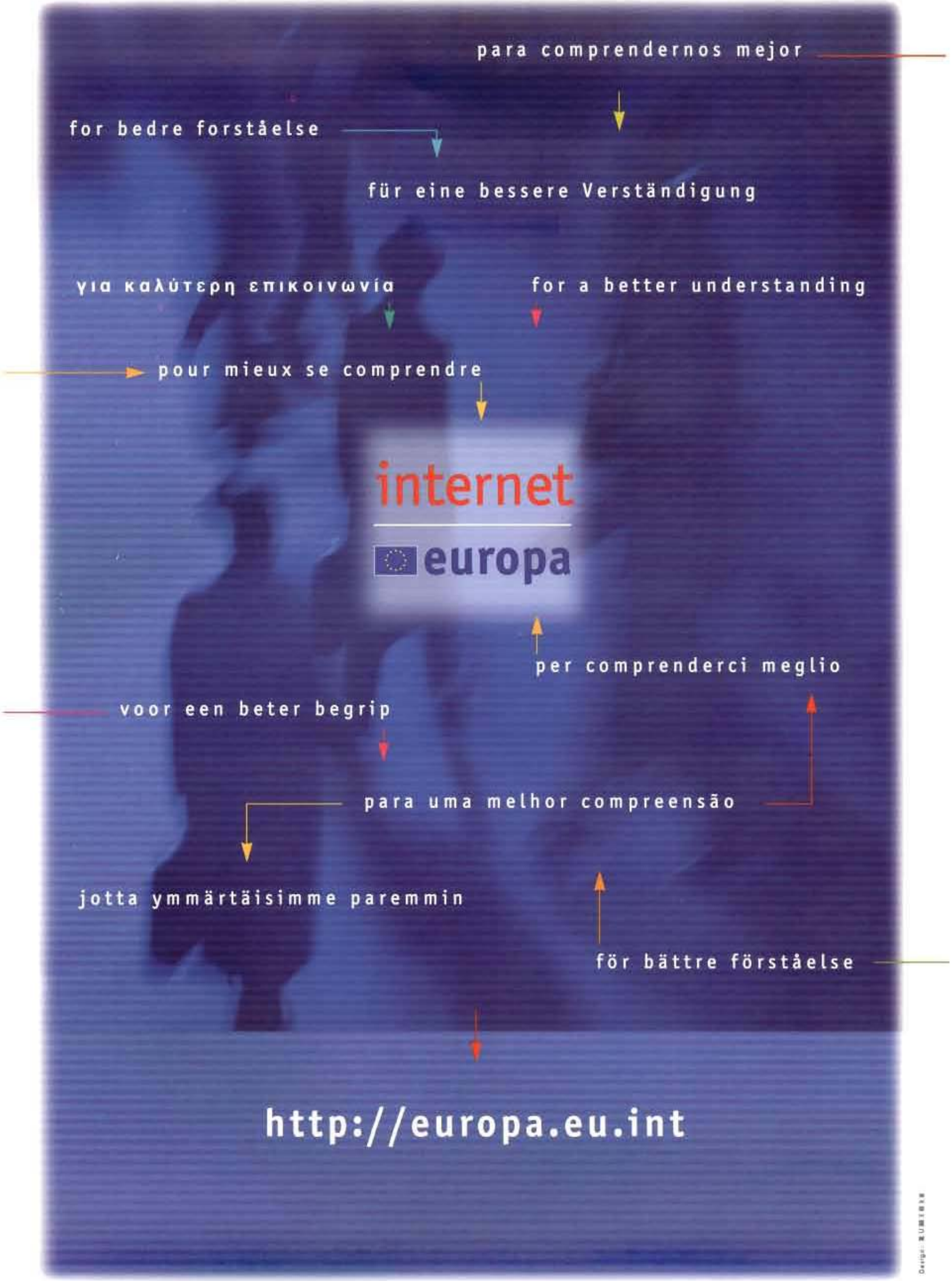
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