The Euro

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Europe unites under a single currency

WHILST THE WORLD AWAITS ON TIP-TOE FOR the dawn of the 21st century, the single most revo- lutionary and historic financial event of the 20th century is taking shape. A full year ahead of 19th January 2000, countries of the European Un- ion (EU) will receive their “new-century” gift. By 1st January 1999 the “Euro” will start circulation alongside the national cur- rencies with the aim of replacing the basket of national cur- rencies of the European Union with this single currency by 1st July 2002, for good.

The idea of a single currency was conceived in Maastricht in February 1992 where it was agreed unanimously to adopt a single currency in the Treaty of European Union signed there.

In the Madrid Council on 15th and 16th December 1995, a three phase time table was drawn-up for the changeover process involved. It was there too that this single currency was named ‘Euro’ unanimously by the Heads of the 15 Member States who attended this meeting.

The need for a single currency is an integral element of the European Union (EU)’s long cherished dream of a ‘single market. The single market is the common marketplace cre- ated by the 15 Member States of the EU by opening-up of borders and adoption of common policies on various issues, as set out in Article 2 of the European Community Treaty.

All the 15 members of the EU viz: Belgium, France, Italy, Luxembourg, Spain, Portugal, Finland, United Kingdom, Greece, Denmark, Germany, Ireland, Austria, Sweden and Netherlands have unfettered access to each other in this mar- ket. The objective of this exercise is to facilitate the free move- ment of people, goods, capital and services. This massive marketplace consists of 370 million consumers making it the largest domestic market in the developed world.

Being a member of the EU alone does not qualify a coun- try to the right to use

Euro. The convergence criteria set down by the famous Maastricht Treaty are tough indeed. They meas- ure up each applicant country's performance in quadruple ways viz: public finance, price stability, exchange rates and interest rates.

Convergence Criteria

■Public Finance

A country must avoid excessive government deficits. A country's budget deficit should be less than 3% of GDP and its outstanding government debt should be less than 60% of GDP.

■Price Stability

Inflation should be controlled. A country's inflation should not exceed 1.5% of the three best performing member states in terms of price stabil- ity in the previous year.

■Exchange – rates

A country's currency must have remained within the normal fluctuation margins of the European Monetary System for a minimum of two years.

■Interest – rates

A country's long-term interest rates should not exceed by more than 2 percentage points of the average of the three member states with the lowest rates in the EU. The changeover process consists of three phases. In the first one, Phase A, commencing in the early part of 1998, (as) early as possible) the Heads of State decide which members. are to be the 'chosen ones' for the Euro in terms of the con- vergence criteria plus the economic data for 1997. Once the participating countries are decided the member states will make nominations for the Executive Board of the European Central Bank (ECB). The ECB together with the European Council will then set the date for the introduction of Euro currencies. And the ESCB (European System of Central Banks) starts issuing bank notes in Euro thereafter. The ESCB will comprise the ECB and the National Central Banks. The Coun cil and the participating states too will start minting Euro for circulation at this point. And the legal framework for the Euro will also be setup by adopting the Council regulation on the same.

Phase B, the second phase starts on 1st January 1999. It consists of the all important task of fixing the irrevocable con- version rates of the currencies of participating countries both among themselves and against the Euro. What's more, when this phase is in operation, the Euro becomes a currency in its own right and the official ECU (European Currency Unit) bas- ket ceases to exist.