

Euro – Single Currency of the European Union

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Abstract

A subject as optimal monetary areas were very challenging. The starting point was made by Robert Mundell which influenced the debate linked to this subject. Economic and Monetary Union was a choice, a target and a challenge. Realizing an optimal monetary area become priority when the "Werner" report was handled to the official and public agenda. This tentative failed as circumstances were non-friendly for the integration process. Another tentative started in 1979 being comprised in the Delors Report. Based on this document started a new generation of monetary integration having as an emblem the Maastricht Treaty.

European countries committed to obtain "convergence of their economies". I pointed out that an appropriate perception of the subject oblige the analysts refers to a much broader vision than convergence criteria. One of the main questions I asked myself was whether euro has facilitated an appropriate level of convergence between member countries' economies.

Key words: Euro, single currency, monetary Union, exchange rate, economic and monetary policy

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1. Introduction

In an article, published in 1961, Robert Mundell analyzed the optimal monetary areas opening the debate in the field of monetary policies and guided other contributions having as main topic the exchange regimes. The launch of the Euro currency can be interpreted as a decisive step ahead towards the monetary system drafted by Mundell. Realizing an optimal monetary area proved to be a very complex enterprise. To do that one can mention fulfillment of some specific criteria.

First criteria is to have an appropriate mix of political and economic factors. Many analysts pointed out the necessity of a minimum level of political integration between participating countries. Scientists analyzed this sensitive correlation from different angles. Some of them stressed that, for launching a monetary area is required to obtain in advance an appropriate level of political integration. Others, in line with Mundell's convictions, believed that the Euro currency favors the political integration. That perspective encouraged the idea that the economic analysis could be sufficient for the justification of the adoption thereof.

One of the most important challenge is to appropriate manage the effects of different domestic or external asymmetrical shocks. One can say that the impact of the asymmetrical shocks could be minimized by the diversification of the portfolios, facilitated on the integrated financial market. Many analysts stressed that a single currency could put an end to the speculative attacks, preventing the application of medium and long-term sectorial policies. European leaders, academic environment and civil society have devoted scant attention to the idea of monetary integration as a prerequisite for the entire integration process.

The subject linked to monetary Union was raised since the beginning of the integration process which was placed in between neofunctionalism and intergovernamentalism. According to neofunctional philosophy at the Commission level was very clear that customs union cannot be accomplished without implementing the main values of an economic and monetary union. On March 6th, 1970, the Council decided to compose a working group to establish the main alternatives for the future monetary union. The target to create a monetary union in that period proved to be very optimistic grace to domestic, regional and international circumstances. This challenging idea

remained on the European bodies' agenda waiting for the appropriate circumstances. In this paper the author stressed few European answers to some challenges European Union was confronted with. In the „ odyssey,, of implementing European common currency one can notice many complex structural and institutional steps ahead. Some of these steps (for instance: launching the Euro; establishment of a monetary Committee; establishment of European Central Bank, issuing Growth and Stability Pact) were beneficial for the entire process of reaching to a monetary Union.

2. First Stage of the Economic and Monetary Union

In a resolution adopted by European Council in March 22nd, 1971 were included measures for the first stage of monetary union such as: the strengthening of the coordination of the short-term macroeconomic and some sectoral economic policies, the gradual harmonization of the medium-term economic policy, preparing incentives for encouraging the free movement of the capital flows, performing structural and regional policies, strengthening the process of coordination of the credit and monetary policies, increasing the level of harmonization of monetary policy towards third countries, maintaining under control the fluctuation margin of the exchange rates, making functional an European Monetary Cooperation Fund. On March 21st, 1972, the Council adopted an improved version of the former resolution on the economic and monetary union, stressing the additional relevance of a process of coordination of the economic policies of the member states, being created and some institutional architecture. In terms of the exchange rates, an agreement has been reached on the gradual reduction of the fluctuations between the member states and the removal of any fluctuation margin in a as short as possible time horizon According to the Regulation of the Council no. 907/73 from April 3rd, 1973, was established the European Monetary Cooperation Fund (EMCF) to allow member countries to keep under control some asymmetric shocks. The Directive of the Council no. 72/156 as of June 23rd, 1973 regulated the international capital flow and neutralized the undesired effects on domestic liquidities. In the final stage, the monetary Union had to provide either the total and irreversible convertibility of the currencies or the introduction of a single currency. The main objective of the EMCF was the provide a good operation of the reduction of the fluctuation margins.

In that period international monetary system was under fire witnessing a lot of sensitive pressures. In these circumstances, decision makers at the European and national level appreciated that would be very beneficial for the integration process to launch a European Monetary System (EMS) for approaching it to the International Monetary System requirements. This step ahead was made on December 5th, 1978, being a first sign of the desire of European countries to be more autonomous in the monetary affairs. The main objective of the EMS was that of providing a monetary stability area by the removal of the consequences of the monetary fluctuations and the mitigation of the effects produced by the dollars volatility. Within the most important goals of the EMS were: establish a common instrument of measure of the participating currencies, limitation of fluctuation in the currencies of the member states, adoption of the means of monetary solidarity and convergence of the economies of the participating states, clarifying the relations with third parties. In line with the Resolution of the Council of December 5th, 1978 and Regulations no. 3180 and 3181/78 European Union decision makers decided upon the creation of the European Currency Unit (ECU), which was established as a basket of participating countries currencies. The EMCF issued the ECU in exchange for the deposit by the member states of 20% of the exchange or currency reserves.

The currencies defined in the ECU have a central rate whereby the values of the community currencies are deduced, and the amendment of the pivot rates can be made by reassessment or devaluation. In terms of the policy of the exchange rates, they were made by consultations between all the member states of the Community, irrespective of whether they belonged to the EMS or not. The ECU was an account currency being used for the monetary and financial operations in frame of the EMS. An additional role of that instrument was to be a means for making the appropriate trading of between the member countries monetary and financial authorities.

An essential step ahead in the process of monetary integration was entering into force of the Maastricht Treaty, on the 1st of November 1993. Establishing a progressive and irreversible integration process, this emblematic treaty made a clearer delimitation between different facets of

the economic and monetary union. The Maastricht convergence criteria were a compromise between two different macroeconomic philosophies, one stressing the monetary tools and other pointing out the macroeconomic traditional stability. In the Maastricht Treaty, as in the Delors Report, were established the main stages of the integration process and the new institutional and regulatory architecture. From the institutional point of view were the European System of Central Banks (ESCB), the European Central Bank (ECB) and regulatory document establishing details of the process of launching a common currency. According with those established in the regulatory dimension of monetary integration, the main role of the ESCB had to coordinate the exchange operations of the community states and of providing the operation of the payment systems in conditions of maximum efficiency, the main objective being the maintenance of the stability of the prices.

The ECB is the single body accredited to authorize the issue of banknotes within the Community, being possible for them to be issued both by the mentioned entity and by the central national banks. A consultative monetary committee was established, with the following duties: follow-up of the monetary and financial situation of the member states, of the general regime of payments of the member states and the elaboration of reports to the Council and the Commission, elaboration of notices, preparation of the Council papers in the specific situations in which problems of a financial and monetary nature are brought forward for discussion, examination of the situation of the circulation of capitals and freedom of payments. The monetary committee had to operate by the end of the second phase of the economic and monetary union. In the third phase, the committee was going to be replaced by an economic and financial committee, with somewhat different attributions in terms of the preparation of the Council papers and in terms of the follow-up of the economic and financial situation of the member states.

3. Second Stage of the Economic and Monetary Union

According to Maastricht Treaty, the second phase began on January 1st, 1994. For proving that are fully prepared to fulfill the convergence criteria, participating countries accepted to elaborate multiannual programmes providing the convergence necessary to the creation of the economic and monetary union, particularly in terms of the price, rate of interest and fiscal stability.

As a supervisory body for that period of time was established an European Monetary Institute (EMI), located in Frankfurt and having the following responsibilities: strengthening the partnership between the national central banks, increasing the level of harmonization between of the monetary policies of the member states, supervision of the operation of the European monetary system, delivering specialized advises on the issues concerning the competence of the central national banks and affecting the stability of the financial institutions and markets, takeover of the attributions held by the EMCF, facilitation of the use of the ECU and supervision of the development thereof. More specific, to assure the technical capabilities for passing to the third phase, the EMI had the and following duties: preparing of the required technical procedures for a process of enforcing a single monetary policy, harmonization of the rules on the collection, establishment and dissemination of the statistics in the monetary field, finalizing the process of issuing the procedural mechanisms to create interlinks between national central banks and the coordinating bodies), assuring an increased efficacy and efficiency of the cross-border payments, supervision of the technical preparation of the bank notes.

During this period was established that the EMI in strong partnership with the Commission would prepare and handled to the Council some periodical reports on the progress recorded by the member states in the process of preparing to fulfill convergence criteria. A very specific requirement was linked to the alignment of the national legislations to the requirements of the community institutions. The Council had the mandate to have a view on the extent to which the member states meet the conditions for the adoption of a single currency, forwarding its conclusions to the European Council gatherings To increase the level of public legitimacy and accountability, was decided to ask for and the Parliament position.

4. Third Stage of the Economic and Monetary Union

In the Maastricht Treaty was established that the third stage of the European Monetary Union will start at the beginning of 1997 if a majority of countries it would have fulfilled the nominal convergence criteria. Imagining that could be possible not to have accomplished that conditionality, those which prepared the Maastricht Treaty added that starting point for a third stage of EMU will be 1st of January 1999 only for those countries fulfilling entirely the convergence criteria. Was decided that those momentum will be established by the Council.

Before the beginning of the third phase, the Council had to establish what member states fulfill the convergence criteria and can adopt the single currency and the states not meeting the committed requirements, and need to be subject to derogations. It was decided that for states not meeting the committed requirements, within maximum two years or upon the request of respective state, the Commission and the European Central Bank will report to the Council, which, by consultation with the European Parliament, decided whether that member state meets the conditions required for the adoption of the single currency.

On the starting date of the third phase, the Council was bound to take the necessary measures for the creation of the economic and monetary union. In this respect, based on the proposition of the Commission and after the consultation of the European Central Bank, the Council decided upon the conversion rate at which the currencies are irrevocably established and the irrevocably established rate at which Euro replaced the national currencies, the external value of the European Currency Unit not being amended by this measure. According to the procedure, the Council took all the measures necessary for the fast introduction of Euro as single currency of the European states. In case of the abrogation of a derogation, the rate at which Euro replaced the currency of that state had to be established, as well as the measures required for Euro to become single currency for the member state having requested the abrogation of the derogation.

5. Last Stage of the Economic and Monetary Union

The process of enforcing a common currency was a multilevel and multiparameter one needing very hard efforts to be done by member countries and sharp fine tuning at every societal level. The main lessons which it would have been learned are difficult to be concentrate in such a short paper but can and need to be discussed in detail. On January 1st, 1999, the single European currency was launched for those countries which proved to fulfill the convergence criteria.

At those moment were considered prepared to do this strategic step only 11 EU member countries. Greece doesn't meet the committed requirements and become subject to derogations. For United Kingdom and Denmark was applicable an opt-out clause and Sweden included in the accession Treaty a provision to decide later if will join or not Euro area. For three years, euro circulated as an account currency and was used in parallel to the national currencies. The complex process of putting the euro instead member countries national currencies started on January 4th, 2002, when it became the single currency for the respective states. At the European Council held in December 1995, was decided that the ECU will be nominated EURO. At the European Council held in December 1996, a Growth and Stability Pact was adopted, in which the application by the member states of the Euro area of the stability programme and the application of the financial sanctions to those states recording deficit above the 3% figure was stipulated, except for the cases of severe economic recession.

On May 2nd, 1998, the European Council in Brussels confirmed the creation of a Euro area between 11 states and established the permanent parities between the currencies thereof. On December 31st, 1998, the ministers of finances established the value in Euro of the 11 envisaged currencies and, and on January 1st, 1999, Euro was launched on the exchange market and could be used as bank means of payment. The Europeans used the Euro bills and coins starting with the date of January 1st, 2000. Another essential diplomatic momentum for economic and monetary area was those involved in the process of finalizing the constitutional treaty of European Union. On those occasion, policy and decision-makers stressed to clarify some flaws in the institutional and regulatory common landscape-

Based on the final version of the Treaty of Lisbon, the main objective of the European System of Central Banks consists in the providing of the price stability, in the context of a market economy, favoring the efficient use of the resources. An improved version of the European System of Central Banks responsibilities is the following: designing and enforcing of the monetary policy of the Union, increasing the level of performance within the exchange operations, holding and administration of the official currency reserves of the member states, promotion of the good operation of the payment systems. Within the meaning of art. 111-186, the European Central Bank is the single authorized body to. In line with provisions of art. III-189, the member states are obliged to assure entire conformity between the domestic legislations and the treaty and the Statute of the European System of Central Banks and of the European Central Bank. For the accomplishment of its attributions, the European Central Bank adopts: regulations, decisions, recommendations and notices.

The use of Euro as a single currency is ruled by laws or framework laws, these being adopted after the consultation of the European Central Bank. Article III - 192 in the Constitution stipulates that, for the coordination of the policies of the member states in this field, an Economic and Financial Committee with the following missions is established: to elaborate notices, upon the request of the Council or of the Commission or upon its own initiative, to follow up the economic and financial situation of the member states of the Union and periodically present a report to the Council and the Commission, especially regarding the financial relations with the third countries and with the international institutions, to accomplish the consultative and preparatory missions entrusted to it by the Council, to yearly examine the situation of the capital circulation and freedom of payments.

The Council, upon the proposition of the Commission, adopts a European decision for the establishment of the common positions regarding the problems related to the economic and monetary union for the providing of the place of the Euro currency in the international monetary system.

As regards the member states which, according to the decision of the Council, fail to meet the conditions necessary for the adoption of the Euro currency, they are referred to as "member states subject to derogation". Chapter IX in the Statute of the European System of Central Banks and of the European Central Bank stipulates that the member states subject to derogation and the central national banks thereof are excluded from the rights and obligations within the European System of Central Banks.

Over the period in which there are member states subject to a derogation, the specific attributions of the Central Bank in this respect are: consolidates the cooperation between the central national banks, consolidates the coordination of the monetary policies of the member states in order to provide the stability of the prices, supervises the operation of the exchange rate mechanism, organizes consultations on the problems related to the competence of the national central banks and affecting the stability of the financial institutions and markets, exercises the functions that the European Monetary Cooperation Fund fulfilled, subsequently taken over by the European Monetary Institute. Pursuant to art. III-201, in case of appearance of severe difficulties for the balance of payments of a member state subject to a derogation, the Commission examines the situation of that state and establishes the measures for the remediation of the situation. In case the measures taken by the respective state are not sufficient, upon the recommendation of the Commission, the European Council, after the consultation of the Economic and Financial Council, decides upon the providing of assistance and upon the appropriate norms.

The mutual assistance can be provided in the following forms: concerted actions at other international organizations that the member states subject to derogation may refer to, measures for the avoidance of the deviation of the commercial exchanges, in case the member state subject to a derogation, in difficulty, maintains or reestablishes quantitative restrictions towards third countries, granting of limited credits from other member states. In the situation in which the Council did not provide the mutual assistance recommended by the European Commission or if the mutual assistance and the taken measures are insufficient, the Commission authorizes the respective state to take safeguard measures.

The Council may revoke the authorization, the norms and conditions established by the Commission. In case of an unpredicted crisis in the balance of payments, unless a European decision is immediately adopted, the state subject to a derogation may temporarily adopt the required safeguard measures, the measures being able to produce only minor disturbances in the operation of the domestic market. The member state is bound to inform the Commission and the other member states about the safeguard measures, at the latest by the enforcement date thereof. Upon the recommendation of the Commission and after the consultation of the Economic and Financial Committee, the Council may adopt a European decision stipulating that the member state must amend, suspend or remove the safeguard measures that it has taken.

After a long and very complex process of negotiation and preparing for fulfilling the Copenhagen criteria, Romania joined the European Union starting with the January 1st, 2007. As a European member country our country need to implement a domestic a monetary policy whose final purpose is entering in Euro Area. Entering Euro area could have both benefits and weaknesses for an applicant country. This subject was largely presented in the specialized literature. The most important benefits of the adoption of the single currency are: decreasing of the transaction costs, currency risk reduction, removal of currency speculations, a coordinated monetary policy, intensification of the commercial exchanges between the member states. The transit to the single currency is not automatically made. The adoption of the Euro currency can be made after a period of minimum two years after from the integration into the European Union, and, in a first stage, the national currency circulates in parallel to Euro.

The European Central Bank (ECB) is the institution having the role of issuing and managing the single Euro currency. The Euro currency was introduced on January 1st, 1999 as account currency, and starting with the year of 2002, the national bank notes of the 12 European Union member states having accepted and met the convergence criteria and having participated in the Euro area were replaced by Euro.

6. Conclusions

The first decade of the Euro currency was characterized by the different economic performances of the European Union member states. The monetary policy of the European Central Bank did not manage to minimize the gaps existent between the states. A negative effect was represented by the divergence of the inflation rates, which had two consequences. The first one was intrinsically connected to the Euro currency and the long-term exchange rate policies, due to the high inflation in Ireland and southern Europe (Portugal, Italy, Spain and Greece). In order to get to the level of Germany, the economic increase and the decrease of inflation had to be stimulated. The second consequence was that the actual exchange rate of these states has to remain fixed to 1, due to the current exchange rate. The deficit of Greece was of 14.6%, of Spain of 1%, in contrast with Germany, which managed to reduce the material expenses. The deficit of the states in the Euro area was mainly due to the fact that they are poorer than the ones in the northern - eastern Europe, which made rapid progress in increasing the living standards. The Ballasa - Samuelson theory suggests that it is only by the increase of the labour productivity that the gaps between the European Union member states can be diminished.

A key element is represented by the minimization of the dysfunctions by economies that are similar in terms of structure, especially the types of produced commodities. The states in the Euro area do not have a similar structure of products, as revealed by the big volume of foreign trade in Europe. There are still big differences between the member states, the countries in northern Europe having bigger capital and higher quality commodities than the states in the southern of part of the continent, and the commodities of the ones in the north have a sale volume that is higher than that of the others. It cannot be established yet whether a single European market contributes to the reduction of the gaps between the states from this perspective or will result in a regional specialization.

7. References

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