The euro

Key facts

The euro was created in 1999 in order to put in place an economic area in Europe, promote the free movement of goods and services, and improve economic stability. It is the monetary component of a broader political and economic project that aims to bring together the peoples of Europe.

In 2002, euro banknotes and coins were officially put into circulation and replaced the previous national currencies: the euro thus became the single currency for nearly 340 million Europeans in the 19 member countries of the European Union that form the “euro area”. The euro has established its legitimacy and long-term credibility over a nearly 20-year period. Citizens have confidence in their currency (almost 70% of French people according to Eurobarometer).

The second leading currency in the international monetary system, the euro accounts for 20% of global foreign exchange reserves and a third of daily transactions on the foreign exchange market worldwide. The euro is also used by several countries outside of the euro area as their official currency (Montenegro, Kosovo, etc.) and by others as a reference currency to set their exchange rate.

The euro’s resilience is underpinned by rules put in place by the euro area governments to coordinate their domestic fiscal policies and avoid the emergence of excessive fiscal deficits (the Stability and Growth Pact). The European Central Bank and the euro area national central banks have to deal with major challenges: there is a single monetary policy for the euro area, but the economic situation in each country may be different. With each country having sovereignty over fiscal and tax policy, the challenge is now to harmonise while at the same time taking account of developments in the different countries, and to improve coordination by enhancing the procedures for decision-making. The Eurogroup, an informal group made up of the finance ministers of the euro area countries, the President of the European Central Bank and a representative of the European Commission, meets regularly to facilitate dialogue.

Key figures

10,057
billion euro
Real GDP of the euro area in 2016 (estimate)

1,126
billion euro
Total value of euro banknotes in circulation worldwide at end-2016. The euro is thus the foremost paper money in circulation, ahead of the US dollar

1.0768
USD
Euro/dollar exchange rate on 1 February 2017

340
million people
The number of citizens in the euro area

A brief history

9 May 1950
The Schuman Declaration lays the foundations for the union of six European countries that wished to consolidate peace (France, West Germany, Italy, the Netherlands, Belgium and Luxembourg).

18 April 1951
The Treaty of Paris creates the European Coal and Steel Community (ECSC).

25 March 1957
The European Economic Community (EEC) is created by the signature of the Treaty of Rome. Its objective is to progressively enable free movement of people, goods and services between Member States.

7 February 1992
The EEC officially becomes the European Union with the signature of the Maastricht Treaty. The process of creating a single currency is launched. The euro becomes the legal currency of the euro area on 1 January 1999.

1 January 2002
The euro replaces national currencies for private individuals in 12 of the 15 countries that then make up the European Union.

2007 - 2015
Successive enlargements of the euro area. The euro area now has 19 member countries.

Understanding

The euro exchange rate

A currency's exchange rate corresponds to its value (its price) relative to other currencies. It is very important for the economy of a country or a region that shares the same currency. The exchange rate thus directly affects the price of products that are imported and exported. For example, an exchange rate that depreciates (a weaker currency) makes firms more competitive as it makes the products they export to other countries cheaper.

Conversely, a currency that appreciates (a stronger currency) reduces the price of foreign currency-denominated goods that are imported from other countries. It then becomes cheaper to buy goods produced abroad.

In the euro area, all countries have the same currency – they therefore have the same exchange rate relative to other currencies. Thanks to this single exchange rate, intra-area trade is not disrupted by devaluations or appreciations that could be detrimental to economic stability in the area.

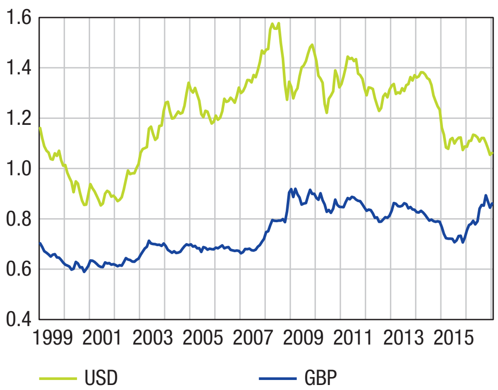
The euro and you

The single currency has eliminated the foreign exchange transaction costs between euro area countries. Citizens can travel more easily without having to change currency.

For businesses too, transactions have been facilitated due to the disappearance of customs duties. Goods and services can move freely, enabling the development of a more competitive European market. Today, 50% of French businesses' trade is carried out within the euro area. This intensification of intra-area trade is conducive to lower prices and therefore preserves consumers' purchasing power.

The euro institutions, the Banque de France and the other national central banks use monetary policy to maintain confidence in the currency, its value and price stability. They thereby make more straightforward the investment and savings decisions of businesses and individuals.

Euro exchange rate against US dollar and sterling



Source: Banque de France.
Note: on 1 February 2017, a euro was worth USD 1.08 and GBP 0.85.

Euro area and European Union at 1 January 2017

To learn more

Suggested reading:

- ➜ The international role of the euro
- ➜ *Euro: The critical years*, by Éric Monnet, Claudia Schrag Sternberg
- ➜ "A Theory of Optimum Currency Areas" by Robert Mundell

Suggested viewing:

- ➜ 15 years of euro banknotes and coins

Useful links:

- ➜ ECB website
- ➜ Milestones in European Construction